National
Foreign
Assessment
Center

Secret
NOFORN

Economic Intelligence Weekly Review

15 December 1978

Secret

ER EIWR 78-050
15 December 1978

Copy 665

NATIONAL SECURITY INFORMATION
Unauthorized Disclosure Subject to Criminal Sanctions

DISSEMINATION CONTROL ABBREVIATIONS

NOFORN–	Not Releasable to Foreign Nationals
NOCONTRACT–	Not Releasable to Contractors or Contractor/Consultants
PROPIN–	Caution—Proprietary Information Involved
NFIBONLY–	NFIB Departments Only
ORCON–	Dissemination and Extraction of Information Controlled by Originator
REL . . . –	This Information has been Authorized for Release to . . .

Classified by 015319
Exempt from General Declassification Schedule of E.O. 11652, exemption category:
§ 5B(1), (2), and (3)
Automatically declassified on:
date impossible to determine

Approved For Release 2002/05/07 : CIA-RDP80T00702A001000040001-5

ECONOMIC INTELLIGENCE WEEKLY REVIEW (U)

15 December 1978

Articles

ITALY: CURRENT ACCOUNT SHOWS BIG GAINS (U)

The Italian current account balance has made a stunning positive swing of $8 billion since 1976, thanks to domestic austerity, improved terms of trade, a competitive exchange rate policy, and record tourist receipts. The surpluses on current account have been used to repay debt and build reserves to a near-record level. As international accounts have improved, Rome has relaxed its foreign exchange controls. (U)

Italian government economists view the strong current account performance as a cyclical phenomenon and are pushing the proposed three-year stabilization program, which is intended to slow inflation from the present 12-percent rate. Critics contend that a permanent lowering of the propensity to import is responsible for the surplus and argue for a more expansionary policy. While favorable momentum on invisibles should contribute to another strong current account showing in 1979, higher prices for imported oil, rising labor costs, stockbuilding, and Italian participation in the European Monetary System (EMS) will be pressing in the opposite direction. (U)

Sources of Surplus

A sharp improvement in the trade account is primarily responsible for the surge in Italy's current account surplus this year. Data through July indicate that 80 percent of the improvement was achieved in nonoil trade. The January-October trade surplus of $3.0 billion (customs data basis, f.o.b./f.o.b., seasonally adjusted) contrasts with a meager $30 million surplus for the like period in 1977. On a balance-of-payments basis, Italian trade should be close to $2.3 billion in surplus for all of this year. Now that trade is so substantially in the black, the large surplus on invisibles, which Rome has relied on in the past to offset chronic trade deficits, gives the government room to maneuver. (U)

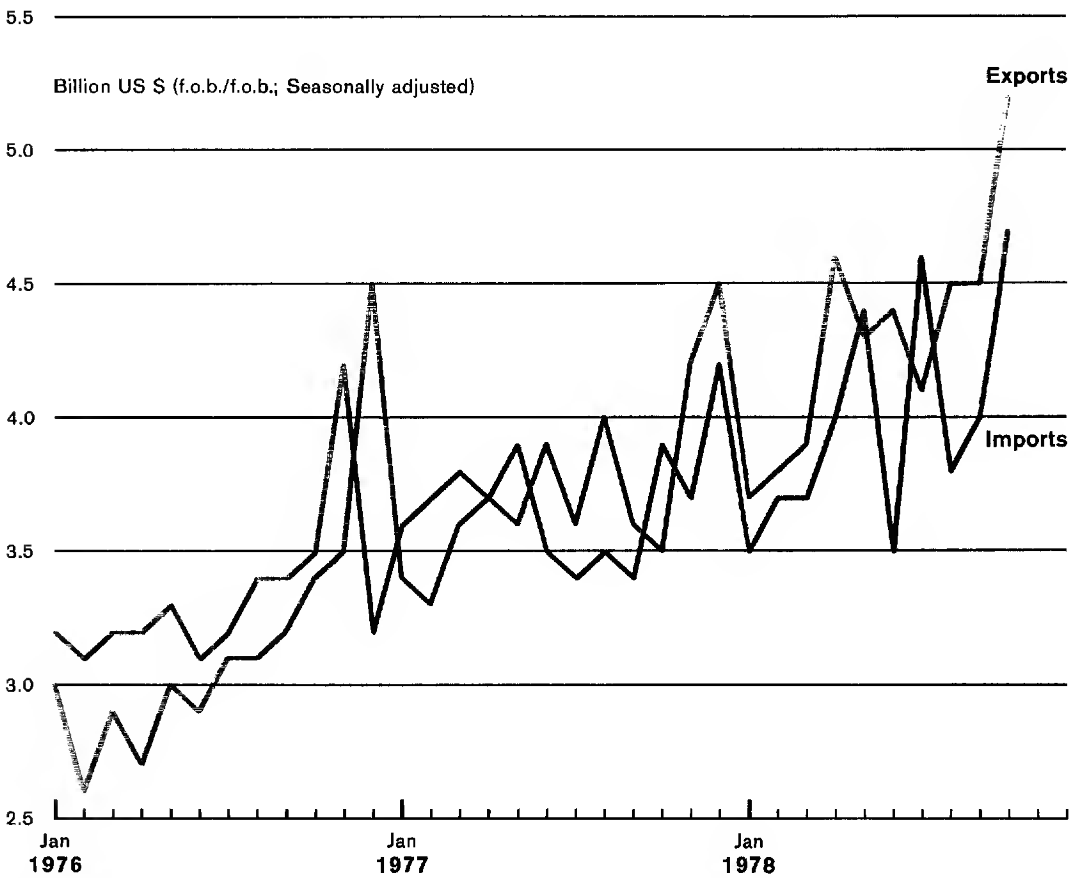
A number of factors have contributed to this year's unprecedented current account surplus—some fortuitous, others policy induced:

Note: Comments and queries regarding the ***Economic Intelligence Weekly Review*** are welcome. For the text, they may be directed to [redacted] of the Office of Economic Research, telephone [redacted] for the Economic Indicators, to [redacted] of OER, telephone [redacted].

25X1A
STATOTHR

25X1A
STATOTHR

Italy: Foreign Trade



Unclassified

578027 12-78

- Government stabilization programs have kept GDP growth low, depressing imports. In January-September 1978, import volume climbed only 0.7 percent compared with the same period in 1977.

- Export volume meanwhile has risen 4.6 percent.

- The composition of final demand has shifted; investment, with its high import requirement, has been depressed.

- Slack prices for oil and raw material imports have contributed to an

improvement in the terms of trade; this accounts for more than one-third of the trade surplus in 1978. During the first nine months of this year, export prices were up 10.5 percent in dollars from the like period of 1977, while import prices increased only 8.1 percent.

- Rome has pursued a competitive exchange rate policy. The CIA trade-weighted, price-adjusted exchange rate index for Italy (a device for tracking the international price-competitiveness of Italian manufactured goods) has fallen continuously since yearend 1976, indicating improvement in their competitive position. Italian manufacturers are maintaining their world market share near its all-time high.

- Flocks of tourists from northern Europe, encouraged by a bargain lira, are seeking the Italian sun. Despite the bad press generated by terrorist attacks, tourist spending will reach $5.8 billion this year, up from $3.9 billion in 1977. (U)

Uses of Current Account Surplus

Italy has accumulated $7.5 billion in current account surpluses over the last two years. The money has been used primarily to repay medium-term debt and to build up reserves. (U)

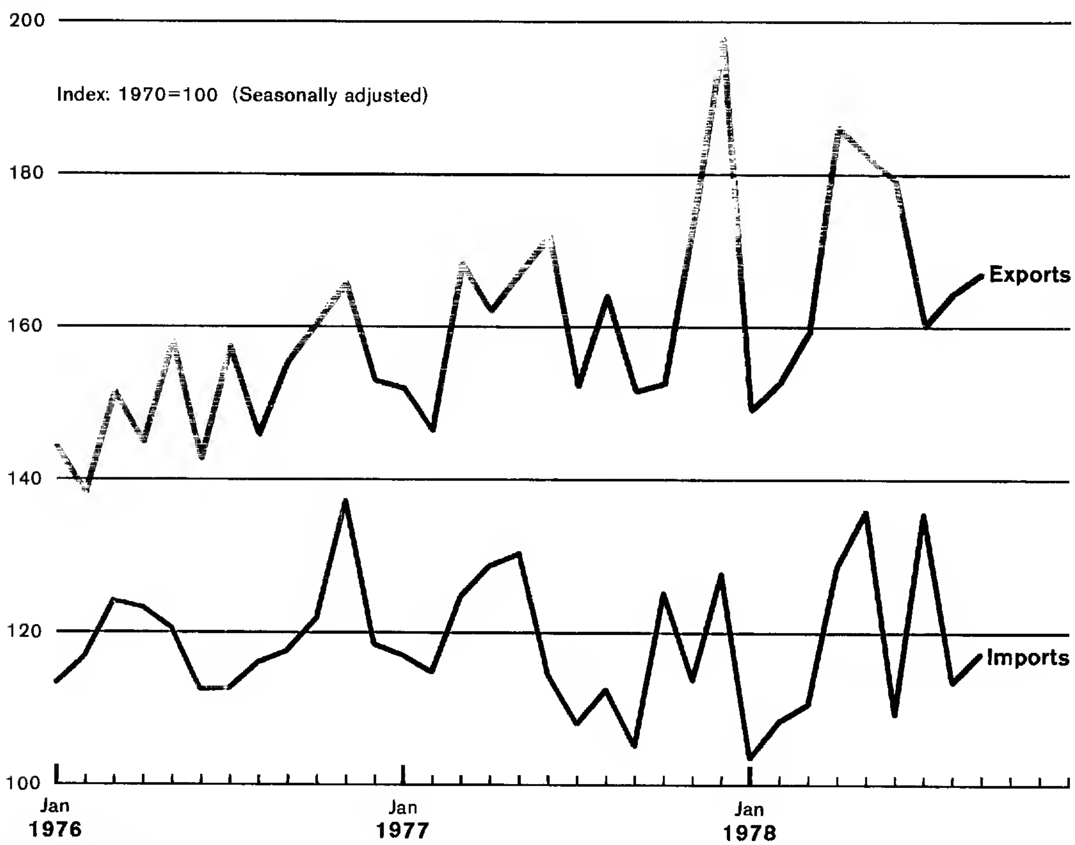
Rome has been saddled with heavy medium- and long-term debt, much of it official borrowing to cover balance-of-payments deficits in 1974-76. At yearend 1977, Italy's gross medium- and long-term hard currency debt (public and private) totaled $20.8 billion, exceeding foreign asset holdings by $5.5 billion. (U)

The debt service burden rose substantially in 1978, with net principal repayments of $2.4 billion ($5 billion gross) falling due. Nevertheless, the current account surplus has allowed repayments to be made punctually. Italy, in fact, has made a number of payments ahead of schedule as part of an ongoing campaign to restore its international credit standing. The $2 billion "gold-backed" credit from the Bundesbank was settled in July by early repayment of the $1 billion balance. Also settled ahead of the due date was the 1974 $1.4 billion EC standby loan. A $1.2 billion International Monetary Fund standby was the third major loan paid off this year, with a final installment of $300 million. (U)

Italy has also been using surplus earnings to rebuild reserves. As of October, official reserves stood close to an alltime high at $14.1 billion. In the 12 months since October 1977, holdings of convertible foreign exchange grew 28 percent to stand at $9.6 billion. (U)

Approved For Release 2002/05/07 : CIA-RDP80T00702A001000040001-5

Italy: Foreign Trade Volume



Unclassified

578028 12-78

Italy: Current Account

Million US $

	1975	1976	1977	1978 [1]
Trade balance	−1,166	−4,239	138	2,350
Exports f.o.b.	34,553	36,998	44,546	51,450
Imports f.o.b.	35,719	41,237	44,408	49,100
Services, net	338	1,144	1,916	2,650
Transfers, net	264	277	229	250
Current account balance	−564	−2,818	2,283	5,250

[1] Estimated.

CONFIDENTIAL

Dismantling Exchange Controls

With the current account improving, Italy launched a series of moves to ease exchange controls. In early 1977, Rome abolished the tax on foreign exchange purchases and the import deposit scheme—under which importers had been compelled to deposit a portion of foreign exchange purchases in noninterest bearing accounts at the Bank of Italy. In October 1977, the reins were loosened on spending by Italian tourists; an Italian is now allowed to spend $880 abroad each year instead of $585. At the same time, the ban on the export of lower denomination lira bank notes was abolished. (U)

In June 1978, the requirement that Italian exporters obtain foreign exchange financing for 25 percent of short-term credits was eliminated. In November the time limit for the conversion of foreign exchange earnings into lire was extended. Also, the Foreign Exchange Office eased restrictions on forward purchases of foreign currency. Peeved with the Italian penchant for slapping on exchange controls whenever the lira is threatened, Italy's EC partners have greeted Rome's easing of restrictions with relief. (C)

One domestic monetary control with interesting balance-of-payments implications is the tight ceiling the Bank of Italy has imposed on domestic credit expansion by commercial banks. When unable to obtain lira credit, Italian borrowers press their banks to arrange loans in foreign exchange. Last year, the net foreign indebtedness of Italian banks rose about $3.5 billion; this short-term capital inflow accounted for about 60 percent of the 1977 growth in central bank reserves. In the first 10 months of 1978 the net foreign indebtedness of the banks declined about $600 million, mainly due to shifts in interest rate differentials. (C)

Feedback on Domestic Policy

The gyrations in Italy's foreign accounts traditionally have been explained as resulting from an inventory stock cycle. About 60 percent of Italy's imports consist of oil, raw materials, and semifinished goods—the commodities that make up the input inventories of the industrial sector. In times of government-induced contraction, firms slash their imports, bringing relief to the foreign accounts. Economic recovery, in turn, is often accompanied by speculative import buying as manufacturers stock up in anticipation of lira depreciation and hikes in import prices. (U)

Government planners treat the strong current account performance as a cyclical phenomenon. They reason that austerity measures have slowed import growth and that a firmer lira and higher interest rates have discouraged speculative stockpiling. When viewed in this manner, the surpluses appear transitory. As soon as the

government releases the financial brakes, an import buying spree would swing the trade account once again into the red. Wage and public finance reform are needed, government economists contend, before Italy can attain stable growth. (U)

In recent months, a study published by an Italian bank (Credito Italiano) has touched off criticism of the government's analysis. The critics argue that the turnaround in Italian foreign accounts has been too sharp and too prolonged to be explained by cyclical forces. They maintain that a structural shift has occurred, a permanent lowering of the propensity to import. According to this line of reasoning, business firms have developed import substitution measures and have switched to energy-saving production techniques. Backers of the second theory contend that Italy has been more successful than other major industrial countries in this adaptation process due to greater reliance on small, flexible firms. Since the improvement in the foreign accounts is here to stay—these dissenters argue—the government has ample freedom to reflate. (U)

Available data are insufficient to confirm or refute the structural-shift theory. Econometric tests have produced inconclusive results. Nonetheless, the theory has given powerful intellectual ammunition to opponents of the government's stabilization program. Industrialists are advocating a return to fast growth through the diversion of some available foreign exchange from rapid debt repayment to finance imports of capital goods and industrial materials. Similarly, the unions are insisting that Rome not follow the West German practice of accumulating exchange reserves. They especially favor more spending to finance job-creating investment and economic development in the ***Mezzogiorno.*** (U)

Treasury Minister Filippo Pandolfi—author of the three-year plan for the gradual economic alignment of Italy with the rest of Europe—recognizes the irony of his present situation. The austerity measures Pandolfi sponsored in 1976-77 have succeeded so well in rectifying Italy's international payments situation that some of the pressure for seeking longer term solutions to inflation/growth problems has dissipated. Enactment of his new plan will require difficult choices by all the political parties. Historically, foreign exchange crises have been the only stimuli potent enough to turn the attention of Italian leaders away from political machinations and toward economic reform. (C)

Outlook: Another Good Year

The Italian current account should make another strong showing in 1979. Slippage on trade almost certainly will be offset by gains on invisibles, with tourist receipts continuing to rise. (U)

As the economy picks up, import volume—propelled by inventory buildups—is likely to register a sizable increase. A rise in OPEC oil prices will hike the oil import bill. New labor contracts slated to be negotiated this winter for more than five and one-half million workers will bring higher wages and probably shorter hours. In the short run, as negotiations become more heated, strikes and worker rallies are likely to multiply, causing a reduction in output and exports and a switch to non-Italian sources of supply. Furthermore, the government's continued inability to stem increases in transfer payments to state enterprises, local governments, and welfare groups will add fuel to inflation. In short, some erosion of Italian export competitiveness appears unavoidable in the absence of lira depreciation. (C)

Participation in the proposed European Monetary System (EMS), which will tie the lira to the French franc and the currencies already in the European joint float, could also have a negative effect on next year's current account performance. In recent years, Italy has been able to preserve export competitiveness by allowing the lira to depreciate against the currencies of most trading rivals. For example, the lira has lost more than half its value against the deutsche mark since March 1973, when the Smithsonian system of exchange rate parities was abandoned. (C) (Confidential)

* * * * *

WORLD RICE: ADDING TO THE GRAIN SURPLUS (U)

Increased acreage and generally favorable weather worldwide will likely bring world rice production to 380 million tons for the 1978/79 crop year, an increase of about 3 percent over the 1977/78 crop year.* (C)

The abundant harvest expected in major rice consuming countries should reduce import demand and keep prices weak. In turn, rice stocks will likely rise to a record level, adding further to already ample supplies of grain worldwide and causing problems of storage and surplus disposal in several countries. (C)

Record Production Again

Most of the increase in world production is occurring in the Asian rice bowl region where favorable monsoons and below-average pest infestation have boosted yields. Record rice harvests are forecast for India, the Philippines, Burma, South

* Rice production figures are on unmilled basis. All other data are on a milled basis. The crop year for rice is the period 1 August - 31 July. (U)

World Rice Production [1]

Million Tons

	1976/77	1977/78 [2]	1978/79 [3]
Total	**349.1**	**369.0**	**380.0**
China	125.5	129.0	132.0
India	64.2	79.1	80.3
Indonesia	23.3	22.8	26.0
Bangladesh	17.9	19.5	19.5
Japan	14.7	16.4	15.7
Thailand	15.8	15.0	15.5
Vietnam	12.0	11.2	10.7
Burma	9.3	8.8	10.0
South Korea	7.2	8.3	8.4
Brazil	8.0	7.5	8.4
Philippines	6.5	6.8	7.0
United States	5.4	4.5	6.5
Pakistan	4.1	4.4	4.3
Soviet Union	2.1	2.2	2.3
Sir Lanka	1.5	1.8	1.8
Colombia	1.5	1.3	1.6
Italy	1.0	0.7	1.0
Australia	0.5	0.5	0.6
Laos	0.9	0.5	0.5
Other	27.7	28.7	27.9

[1] Figures are on an unmilled basis; crop year runs from 1 August to 31 July.
[2] Preliminary.
[3] Forecast.

CONFIDENTIAL

25X1A

Korea, Sri Lanka, and Indonesia. Production in the People's Republic of China is also expected to reach a record level despite some drought problems with late rice. Unfavorable weather has reduced production in Vietnam, Laos, and Cambodia. Total production in the Asian rice bowl region, which accounts for more than 85 percent of the world harvest, is expected to be up 2.5 percent. (C)

An increase of 36 percent in acreage and favorable growing conditions have led to a record US rice harvest of 6.5 million tons, up 44 percent from 1977/78. Higher support prices and a return to more favorable weather are expected to boost production in Colombia and Brazil. Small gains are also expected in Australia and the Soviet Union, and Italian production has recovered to a more normal level as the result of favorable weather. (U)

Consumption Up, Trade Down

Ample supplies of rice at moderate prices combined with continued population

growth in Asia will push consumption to a new record of about 240 million tons. A growing demand for wheat in several Asian countries, especially Japan and Sri Lanka, has diverted some growth potential in rice consumption. Nonetheless, strong demand from Middle Eastern OPEC countries and increasing demand from urban areas in West African countries will keep growth in world consumption ahead of last year's rate. (U)

World trade in rice in calendar year 1979 is expected to decline 600,000 tons from the 9.1-million-ton level estimated for 1978. Import demand is expected to drop in Asia as a result of increased production in four major importing countries. Indonesia, the world's largest importer, is expected to import only 1.5 million tons, 21 percent less than in 1978. A large rice carryover and the record harvest could result in even lower Indonesian imports than currently estimated. Other countries expected to trim imports as a result of good harvests are Sri Lanka (by 125,000 tons) and Malaysia (by 300,000 tons). Import demand by Bangladesh will probably remain low as a result of a record harvest and the receipt of wheat from aid donors. India and the Philippines, formerly net importers, are again not expected to purchase rice; in calendar year 1979 each may even export 200,000 tons. (U)

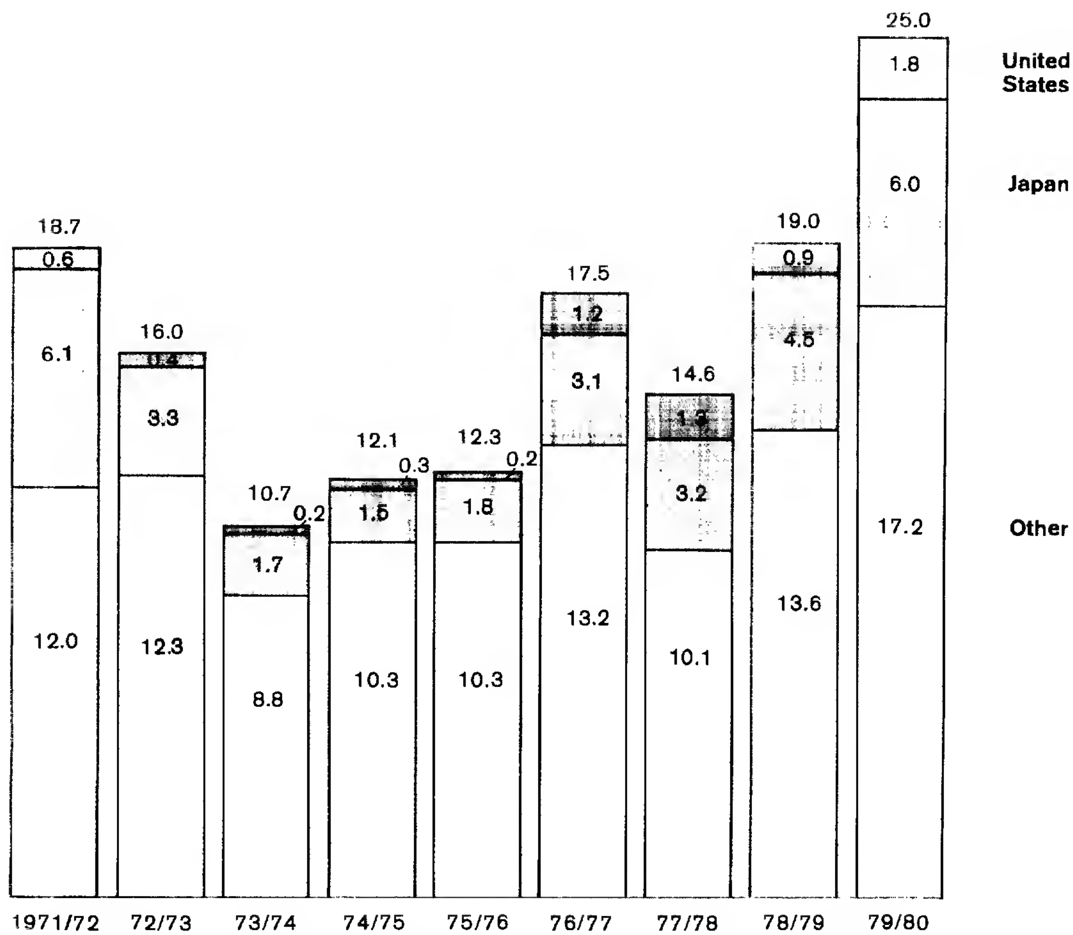
Import demand for rice elsewhere in the world is expected to register a small increase. An additional 250,000 tons of imports may be required to meet consumption increases in Africa and the Middle East. The major uncertainty clouding this outlook is the Iranian situation where import demand was expected to account for one-fourth of the increase. A continuation of the present popular unrest and further port congestion could sharply reduce Iranian import capabilities and cut the demand for US rice. (U)

Production shortfalls caused by heavy rains and flooding have reduced the availability of rice for consumption in Laos, Cambodia, and Vietnam. Laos and Vietnam together will probably have to import a minimum of 500,000 tons of rice to meet domestic shortfalls. Total imports will be lower than requirements due to hard currency constraints and the substitution of cheaper wheat for rice. The majority of imported rice will come as food aid or concessional sales. Cambodia will be forced to limit its small rice exports and domestic consumption. (U)

Export supplies of rice are more than adequate to meet import demand in contrast to the situation a year earlier. Thailand's agricultural sector has recovered from a drought and should furnish 300,000-400,000 tons more than the 1.5 million tons exported in 1978. Burma should also have an additional 200,000 tons available for export while Chinese exportable supplies will likely remain the same due to problems with the late rice harvest. US supplies will be up almost 2 million tons, and availabilities from Italy and Brazil will also be larger. (U)

World Rice Stocks[1]

Million Tons



[1] Estimate for beginning of marketing year. Data based on aggregate of different local marketing years and not representative of a specific point in time. Does not include China.

Unclassified

578033 12-78

Stocks: Rice, Anyone?

The record* rice harvest and ample world supplies of other grains will push rice inventories to a record level of about 25 million tons * at the end of the current crop year. The high level of world stocks and reduced trade prospects will keep prices

*Does not include stocks in China.

under downward pressure at least until next year's harvest conditions are known. Prices for quality US rice have dropped to $340 per ton compared with more than $400 per ton for the first eight months of 1978. (U)

Burdensome rice stocks have presented serious storage and disposal problems for several countries. India, after four successive years of good grain harvests, has little in the way of unencumbered quality storage facilities and may lose considerable quantities of rice to pests and spoilage. Storage space in Sri Lanka is also short after two successive record harvests and large imports in 1977/78. In an effort to alleviate its storage problem, Sri Lanka has attempted to export rice for the first time in over 200 years. The rice has been of such poor quality that sizable export sales are not likely. (U)

Japan's huge stocks of rice have created a disposal problem. Subsidization of production and declining domestic consumption have stuffed Japanese storage bins with 6 million tons of rice, three times the desired carryover level. Favorable weather boosted yields this year after Japanese administrators were successful in reducing rice acreage. The Japanese Ministry of Agriculture, Forestry, and Fisheries must now initiate a program to dispose of 4 million tons of surplus rice over the next five years. One-half of the surplus will probably be allocated to domestic feed use and 40 percent will be exported as food aid. The program will likely result in reduced demand for US feedgrains, and aid donations will further reduce commercial markets for rice exporters. (U)

US rice stocks will reach a new record at the end of the 1978/79 crop year. With US rice exports currently projected at 2.1 million tons by the United States Department of Agriculture, stocks by next July will have doubled to a level of 1.8 million tons. This level is 500,000 tons greater than the previous record carryover of July 1977. (U) (Confidential)

* * * * *

25X6

25X6

Next 1 Page(s) In Document Exempt

CHILE: REFORM PROGRAM REVITALIZING ECONOMY (C)

The Pinochet government's thoroughgoing economic reform program has reversed Allende's socialist revolution and transformed Chile into a market-oriented, free-trade economy. Santiago has restored economic growth, broken hyperinflation, and at least temporarily eliminated payments problems. Industry and agriculture are becoming more internationally competitive, the country is now living within its means, and overriding dependence on copper exports has been greatly reduced. With US bankers and businessmen in the vanguard, growing international business confidence in the junta's program has paved the way for new loans and new direct investment, enabling the junta to relax austerity policies that have hit hard at the poor. (C)

The US Letelier investigation, possible armed conflict with Argentina, and/or the Regional Inter-American Labor Organization's planned boycott of Chilean products could trigger international payments problems in 1979. Nonetheless we expect the economic gains and structural improvements of the reform program to continue apace. To maintain economic growth in the 6-percent to 7-percent range beyond next year the Chilean junta must take steps to boost domestic savings and investment from their still relatively low levels. (C)

Dramatic Turnaround

The Chilean economy has recovered from the chaos of the last years of the Allende government. Comprehensive economic reforms along with stringent austerity measures have brought inflation under firm control, restored Chile's economic credit rating, and fostered economic growth:

- Inflation is down from triple-digit levels in the mid-1970s to 30 percent in 1978.

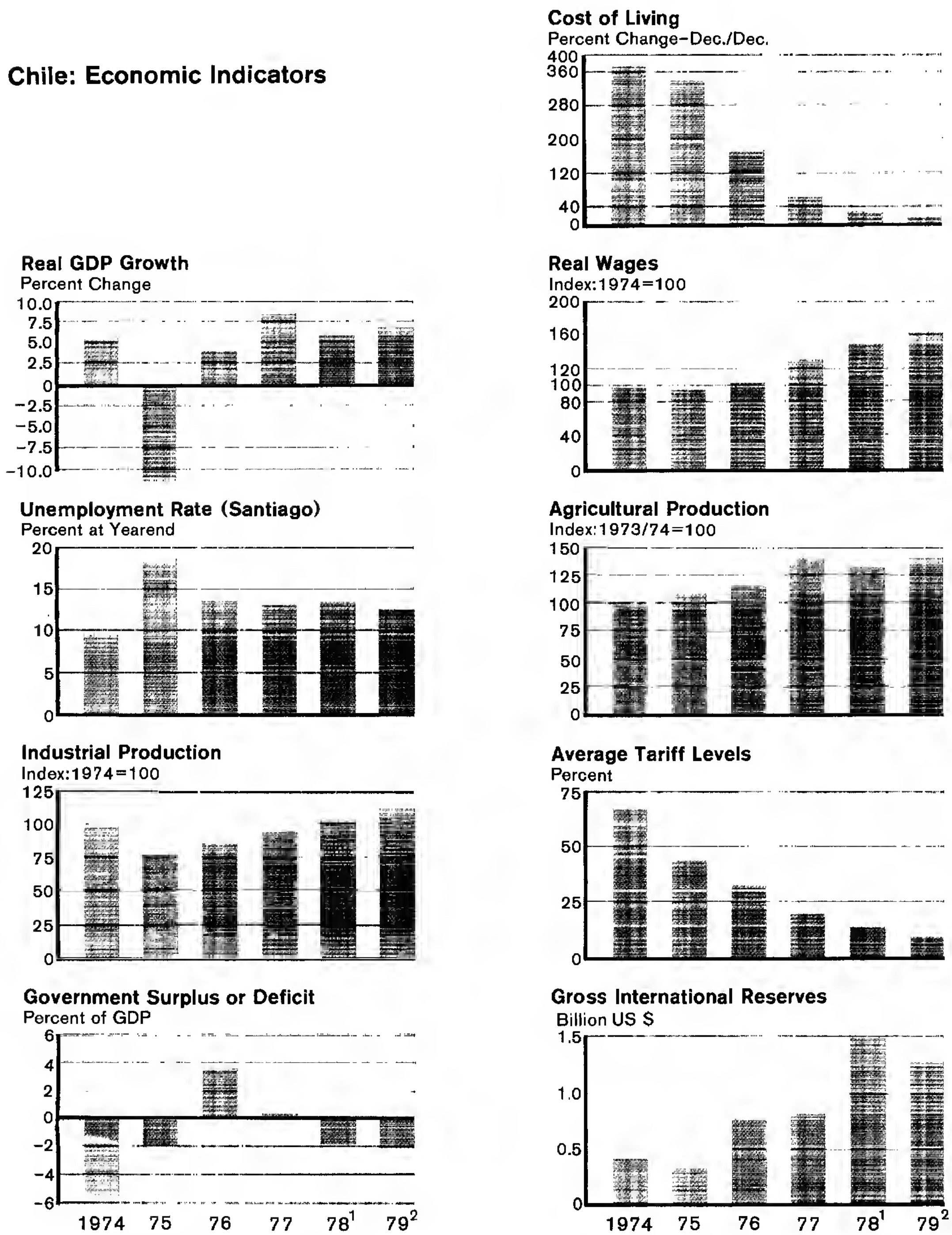
- The external accounts will post a $500 million surplus this year compared with the $100 million deficit recorded in 1973.

- Real economic growth in 1978 will hit about 6 percent in contrast to a 4-percent decline in 1973. (C)

Reform Program

The junta reform program has touched every aspect of the economy. The new economic authorities—a group of orthodox economists known as the "Chicago

Chile: Economic Indicators



1. Estimated
2. Projected

Confidential

578026 12-78 CIA

Boys"—restructured the economy along free-market lines. Prices of industrial products were decontrolled to encourage production and eliminate black markets. At the same time, wage increases were restrained and strict labor discipline imposed. Agricultural production was boosted by ending land reform, returning expropriated farmlands, freeing crop prices, and implementing technical assistance programs. To reduce state involvement in the economy, the government sold off most nationalized firms to private investors. Policymakers slashed government spending, eliminated most subsidies for public enterprises, and revamped the tax collection system. Monetary expansion was curtailed drastically. Capital markets were rehabilitated by eliminating interest rate controls, indexing financial instruments, and reducing public sector borrowings. (C)

The military government also reestablished Chile's international credit rating and improved its international payments position. To regain the confidence of foreign investors, Santiago compensated the foreign owners of expropriated copper holdings and has met the $1 billion annual debt service obligations since 1976. The government has unified the multiple exchange rates to eliminate implicit export taxes and import subsidies. Nontraditional exports have been encouraged by revoking exchange controls, devaluing the peso in line with relative rates of inflation, rebating value-added taxes on overseas sales, and expanding export promotion efforts. Barriers to foreign direct investment were dropped, and Chile withdrew from the Andean Pact in late 1976 to free itself from restrictive regulations on this investment. (C)

Santiago also moved to revitalize the industrial base and to generate new jobs. Productive efficiency in the industrial and agricultural sector was fostered by opening Chilean markets to foreign competition through a program of dismantling import controls and reducing tariff barriers. To encourage expansion and modernization, policymakers introduced accelerated depreciation, eliminated restrictive labor legislation, and encouraged cooperative producer associations. Since 1976, the economic authorities have channeled subsidized investment credits into fishing, forestry, agriculture, and copper—sectors in which Chile has the greatest comparative advantage. Earlier this year, commercial banks were permitted to make medium-term loans, increasing the availability of investment credit for the private sector. (C)

Progress to Date

Before the reform program could take hold, Chile's precarious payments position was further damaged in late 1974 by the 40-percent plunge in average copper prices and the quadrupling of oil import prices. To prevent a runaway deficit, the military government implemented harsh austerity measures. During 1975, industrial production fell 23 percent, real GDP declined 11 percent, inflation hovered at 340 percent, and unemployment doubled to 19 percent. Since mid-1976, the junta reform strategy plus a cautious easing of austerity have spurred a coordinated recovery. (C)

Domestic Economy Growing

Chile has managed strong economic gains for three successive years. Real growth is estimated at 6 percent this year after jumping 8.6 percent in 1977 and 4.1 percent in 1976. The industrial sector is leading the advance. Industrial production has increased 32 percent since 1975, reflecting the recovery in manufacturing and a rebound in construction. Agricultural output rose 30 percent in 1976-77 because of increased plantings and improved yields, but dropped 6 percent this year partly because of bad weather. (C)

As a result of tight fiscal and monetary policies, price increases have slowed to an annual rate of 30 percent, compared with 64 percent last year and 174 percent in 1976. The budget deficit, which totaled 23 percent of GDP in 1973, has been virtually eliminated, while the real growth in the money supply has been held to a 20-percent annual rate since 1976. Competition from imports and the stretching out of automatic wage adjustments have also contributed to the reduction in the rate of inflation. (C)

Paralleling the upturn in economic activity, employment has risen by 6.7 percent yearly since 1975. Unemployment in Santiago has fallen to 14 percent from the March 1976 high of 19.8 percent. Real wages, which plummeted 23 percent during the 1973-75 period, have now climbed to 45 percent above the 1976 level. (C)

Payments Position Improved

Although official loans fell off in protest against the junta's human rights practices, growing private capital flows have enabled the Chilean regime to avoid payments problems since 1976. Resumption of loans and direct investments by banks and businessmen this year will increase capital inflows to an estimated $2.1 billion, compared with $1.4 billion in 1977. On the strength of its refurbished international credit rating, Chile is tapping world money markets for $1.5 billion in loans this year to extend its debt maturity structure and to build reserves. Last month, for example, Manufacturers Hanover raised $370 million for the Central Bank in the form of a 10-year credit at 1⅛ percentage points over the London Interbank Rate. US banks—Citicorp, Morgan Guaranty, Chase, Chemical—are underwriting the bulk of the syndicated credits and providing a substantial share of direct loans. US financial institutions held an estimated 45 percent of Chile's foreign debt at yearend 1977, and the share has increased this year. (C)

Growing confidence in the junta's ability to manage the economy has also led to an expansion of direct foreign investments. Since 1976, policymakers have approved an estimated $3 billion in new foreign investment projects. Known direct investment will total about $150 million in 1978; US corporations accounted for approximately 80 percent of this total. The $110 million purchase of the Disputada copper mine by

Chile: Balance of Payments

Million US $

	1974	1975	1976	1977	1978 [1]	1979 [2]
Current account balance	−214	−578	164	−496	−750	−790
Trade balance	230	−205	491	−111	−280	−360
Exports, f.o.b.	2,243	1,571	2,072	2,186	2,320	2,500
Copper	1,716	850	1,238	1,159	1,060	1,150
Other	527	721	834	1,027	1,260	1,350
Imports, c.i.f.	2,013	1,776	1,581	2,297	2,600	2,860
Net services and transfers	−444	−373	−327	−385	−470	−430
Interest payments	−272	−284	−310	−336	−396	−372
Capital account balance	−402	71	318	511	1,230	570
Debt amortization	−596	−747	−680	−842	−850	−930
Capital inflows	463	797	991	1,353	2,080	1,500
Direct investment	−538 [3]	−4	0	22	150	150
Commercial credits	131	492	538	726	1,500	1,000
Official credits	870 [3]	309	453	605	430	350
Errors and omissions	−269	21	7	0	0	0
Debt relief	560	232	0	0	0	0
Change in reserves	−56	−275	482	15	480	−220

[1] Estimated.
[2] Projected.
[3] Including compensation for nationalization.

CONFIDENTIAL

Exxon Minerals International represents the largest US investment, while Goodyear Tire, Diamond Shamrock, and Atlantic Richfield have made smaller acquisitions. European firms have made several investments in manufacturing, Canadian companies are prospecting for new copper deposits, and Japanese interests have invested in the fishing industry. (C)

Despite the 14-percent decline in copper earnings since 1976, Chile's exports have increased 12 percent to $2.3 billion in 1978. Shipments of noncopper products—such as fruits, lumber, fish, pulp, and wine—have increased 51 percent since 1976. Export gains and the increased inflow of foreign credit have enabled Santiago to relax austerity programs. As a result, imports have increased by 64 percent since 1976, to an estimated $2.6 billion. US exporters, the country's largest suppliers, have not kept pace with these gains; their trade share declined to 20.9 percent in August 1978, compared with 23.8 percent in December 1976. A sharp falloff in US agricultural sales was only partially offset by gains in shipments of machinery and consumer goods. (C)

Structural Changes

Economic reforms are slowly introducing structural changes that should enhance Chile's future growth. Tariff reductions programs are fostering industrial efficiency.

The industrial sector, coddled behind protective tariffs since the 1930s, now produces only 25 percent of real GDP, compared with 31 percent in 1973. To survive the industrial shakeout, firms have cut their workforces, adopted new technology, and improved management. Despite fierce competition from imports, industrial production in most sectors has recovered to historic highs. Exports of industrial products increased from 10 percent of industrial output in 1973 to 23 percent in 1977. (U)

The interplay between market and government incentives is encouraging the growth of Chile's agriculture. Agricultural production has shifted away from traditionally subsidized crops—sugarbeets, barley, rapeseed—to more profitable items such as fruits, vegetables, meat, and dairy products. As a result, Chile is now a net exporter of foodstuffs, with a surplus of about $40 million this year compared with the $470 million import deficit recorded in 1973. (C)

Government modernization programs coupled with incentives to foreign investors are revitalizing the mining sector despite low world copper prices. In particular, these efforts have enabled Chile to increase mine production from installed mine capacity while improving the efficiency of mining operations. Since 1975, the Chilean Copper Corporation, the state firm that manages the large mines, has invested about $300 million in new equipment and cost-reduction technology. As a result, copper production increased from 735,400 tons in 1973 to 1.06 million tons in 1977, the recovery of byproducts has risen, and production costs have declined. Moreover, the liberalized foreign investment climate is spurring renewed foreign interest in developing Chile's copper reserves, about 20 percent of the world total. In 1977, for example, a US-Canadian consortium spent $5 million in studying the feasibility of developing the Quebrada Blanca copper deposits which will require a minimum of $500 million to bring into production. (C)

New export policies are sparking the growth and diversification of the export base. During the past five years, Chile has tripled the number of commodities sold abroad and has established new markets, especially in the Third World. Latin America, for example, now accounts for 30 percent of Chile's exports compared with only 12 percent in 1973. Chilean exporters have also established a toehold in the OPEC countries, Africa, and the Far East. As a result, dependence on copper revenues declined from 81 percent of exports in 1973 to 53 percent in 1977. Even if coppper prices in 1977 had equaled historic averages, copper would have accounted for only 63 percent of total exports. (U)

Government austerity and new taxes are greatly increasing the public resources available to help finance new investment. Introduction of a value-added tax, indexation of tax liabilities, and a crackdown on tax evasion have doubled government revenues since 1973. These measures have been sufficient to cover public sector

consumption and generate savings equal to 7.7 percent of GDP in 1977. About one-half of these savings are being channeled into private sector projects such as agriculture and copper. Commercial loans have quintrupled since December 1974 in response to increasing confidence among private entrepreneurs, the fall in monthly interest rates from an average of 16 percent in 1975 to about 5 percent this year, and a gradual easing in reserve requirements. Chilean corporations have also found foreign capital markets receptive to medium- and long-term credits necessary to finance industrial expansion projects. (C)

Continuing Troublespots

The poor and the workers, who have borne the brunt of the stabilization program, still represent a source of potential social and economic unrest. The abandonment of price controls has raised the cost of essential goods, while tariff reforms and austerity measures have helped to keep unemployment at a high level. Moreover, a study by the University of Chile indicates that real earnings of miners, utility workers, and government employees has not yet regained 1970 levels. The Pinochet regime is forestalling social unrest by restricting political liberties, maintaining strict labor discipline, implementing a public works employment program, and increasing spending on social services for the poor. (C)

Labor trouble has flared this year, however. Since July, blue-collar workers have been demanding higher wages to recoup lost purchasing power. At the end of July, laborers at the Chuquicamata copper mine protested the erosion of wages and benefits and the absence of trade union freedoms. Workers at the other large copper mines, at the Huachipato steel complex, and at the Lota coal mines followed their example. Despite some economic concessions, the government has taken a hard-line approach toward labor. In October, for example, the junta dissolved seven trade union federations and announced a general election to replace all incumbent union leaders. In the longer term, a new crop of inexperienced labor leaders could cause trouble by making unrealistic wage demands if the government honors its pledge to restore collective bargaining next year. (C)

Inadequate domestic savings and the consequent sluggish rate of new capital formation are worrying policymakers. The low rate of total fixed investment, 11 percent of GDP last year, is primarily the result of (a) the low level of private domestic savings and (b) the still small contribution of foreign capital, an estimated 3.2 percent of GDP in 1977. The sluggishness of new investment will pose a less serious constraint to economic growth in the short run because of the availability of considerable unused industrial capacity. Unless domestic savings can be greatly increased, however, Chile over the longer period will have to depend increasingly on foreign capital to sustain growth and prevent substantial increases in unemployment. (C)

Outlook

If Santiago can maintain labor peace and defuse international tensions, the Chilean economy should manage another year of solid economic gains. We expect real growth to increase by 7 percent in 1979, led by continued growth in manufacturing output, further recovery in construction activity, and a rebound in agricultural production. Inflation should fall to 20 percent, and the rate of unemployment should dip below 13 percent by yearend. (C)

Labor will continue to press for higher wages and fewer restrictions. Strikes are unlikely in the next several months because of government controls. Moreover, new concessions to labor demands should calm growing worker restiveness. This month, for example, the government decreed a 12-percent salary increase for Chilean workers. This should add only marginally to inflationary pressures. (C)

Chile's external payments position will likely deteriorate next year. Anticipating this development, policymakers have nearly doubled gross reserves of international exchange (to $1.5 billion). These measures are intended as precautions against the

Chile: External Debt

	1974	1975	1976	1977	1978 [1]	1979 [2]
	Million US $					
External debt	4,774	5,263	5,195	5,434	6,100	6,400
Debt service payments	868	1,031	990	1,178	1,246	1,300
	Percent					
Debt service ratio	38.7	65.6	47.8	53.9	53.7	52

[1] Estimated.
[2] Projected.

UNCLASSIFIED

possibility of (a) a clash with Washington over the Letelier investigation, (b) an armed conflict with Argentina over the Beagle Channel, and (c) a $150 million loss in export earnings because of the recently announced boycott of Chilean products by the Regional Inter-American Labor Organization. (C)

We expect that Chile's gross financial requirements will total $1.7 billion in 1979, up 8 percent over 1978. The trade deficit will probably widen to about $360 million, compared with $280 million this year, as economic recovery spurs increased imports while the international boycott limits export gains. Debt servicing costs should total about $1.3 billion, an increase of 4 percent compared with 1978. Despite higher

capital investments, foreign borrowings are unlikely to match last year's level. Chilean entities have rushed to complete major syndications this year, and apparently only a few small credits remain in the international pipeline. Policymakers will therefore have to draw down accumulated reserves to finance the payments gap. (C) (Confidential)

* * * * *

COBALT: US DEPENDENCE ON OUTSIDE SUPPLIES (U)

Despite the rise in US consumption of cobalt, persistent production problems in Zaire, and generally tighter worldwide supplies, we estimate that the United States will be able to meet its 1979 needs for cobalt out of current global production and will not have to dip into government reserves (now at a two-year level). Aside from scrap, the United States relies on imports for all its cobalt—a critical vulnerability since cobalt is an often irreplaceable element in the high-temperature parts of jet engines and turbines and in cutting tools. (U)

Key Industrial Applications

Cobalt is one of the few critical metals, denial of which would severely impede output of a wide range of important industrial products. It is nearly irreplaceable in an estimated 60 percent of its applications:

- Jet engine parts—Superalloys of up to 65 percent cobalt provide resistance to stress and high temperatures.

- Tools, dies, and drill bits—Cobalt imparts wear and abrasion resistance.

- Wellhead and pipeline valves and seamless tubing—Alloys of up to 35 percent cobalt are vital for hardness, corrosion resistance, and protection against abrasion and heat buildup.

- Chemical processing—Cobalt serves as a catalyst in petroleum hydrogenation and as a drying agent in paints. (U)

Particular Significance to the United States

Cobalt has been designated as one of two critically important minerals that pose serious supply problems to the United States. (Chromium is the other.) The Mineral Review Committee of the President's Nonfuel Minerals Policy Study in October 1978 noted that:

- At present the United States has no cobalt reserves (that is, identified and economically mineable deposits). Taking into account recovery from scrap, the United States is 97-percent import reliant.

- Up to 80 percent of current US supply originates in Africa (in 1977, 65 percent from Zaire, including 22 percent transshipped through Belgium for further processing, and 13 percent from Zambia); Africa accounts for about 45 percent of world output

- Zaire and Zambia possess nearly 40 percent of the world's cobalt reserves.

- Cobalt is of critical importance to US national defense due to its use in high-temperature parts of jet engines and turbines and as a vital ingredient in cutting tools. In these applications, a suitable substitute for cobalt often cannot be found, especially where ultrafine cobalt powder is a necessity; the United States relies on Belgium for some 80 percent of its requirements of cobalt ultrafine powder. (U)

US Demand Increasing

US consumption of cobalt, about 8,000 metric tons in 1977, has increased in response to expanded demand from the aircraft industry for superalloys containing cobalt. We estimate that 1978-79 demand will range between 8,500 and 10,000 tons annually, or roughly one-third of total non-Communist demand for cobalt. The USSR, which normally is almost self-sufficient in cobalt, together with the other European Communist countries consume a total of 6,000 to 7,000 tons annually. (U)

US Supply and Stockpile Situation

Despite the increasingly tight worldwide cobalt supply, the 200 to 300 firms that account for US cobalt consumption have managed to expand operations. Even with intensified pressure on supply following the May 1978 invasion of Zaire's Shaba Province, US users of cobalt were able to obtain needed supplies through supplemental purchases on the "free" or "gray" market which consists of small independents and speculators. Prices for small-lot free market sales of cobalt have soared from $6.85 per pound prior to the Zaire invasion to an estimated $50 per pound at present. The official producer price over the same period has tripled to $20 per pound and probably will go higher. (U)

US manufacturing firms have experienced little difficulty passing these stiff price increases to their consumers because the added cost of cobalt is only a small fraction of the final product price. For example, tripling the price of the 200 pounds of cobalt

used in a JT-9 jet engine adds less than 0.2 percent to the $2 million final product cost. (U)

No one knows precisely how much cobalt is held in the inventories of US merchants and processors. The best guess, based in part on consumer stocks reported to the US Bureau of Mines in August, is the total commercial supplies do not currently exceed one or at most two months' requirements. Small quantities also are held by US dealers in various free ports outside the continental United States. US cobalt consumers are trying to husband these stocks through economies of one form or another—for example, cutting unit usage and saving scrap for reprocessing. Some are taking the ultimate step of replacing cobalt with other metals, but this takes time, involves exceedingly high costs, and does not always give fully effective technical results. (U)

Ultimately, if the United States faces shortages sufficient to warrant a Presidential decision that the national security is endangered, supplies would be doled out from US strategic stocks. These stocks, equal to approximately two years' consumption at 1978 levels, were acquired several years ago and probably would require some reprocessing to meet present specifications. (C)

Outook for Continued Tight Supply

We believe that the world cobalt supply will remain tight over the next year or two, given the likelihood of nagging production problems in Zaire. We assume that the fragile security now maintained in Zaire's cobalt/copper mining belt will continue and that, if insurgents make occasional forays into the area, they will spare vital cobalt facilities such as the refineries in Liulu and Likasi. (C)

Zaire's cobalt industry did not sustain any appreciable physical damage during the 13 May invasion; output resumed shortly thereafter at near or slightly above the immediate preinvasion level. Loss of the 400 or so foreign (mostly Belgian) specialists did not prove to be as serious a problem as forecast by earlier field reports, due in part to the redundancy of many expatriates and also to the exceptional efforts by the Zairian work force to demonstrate a go-it-alone capability. Even the Zairians, however, recognize that additional technicians are needed now to cope with inadequate maintenance, shortages of spare parts, and aged equipment. Purchases of spare parts—a chronic but increasing problem—have been restricted by government limitations on the foreign exchange made available to GECAMINES, the state company responsible for operating and financing the cobalt facilities. An estimated $100 million is needed now to replace major equipment and to provide the required inventory of spare parts. Even if orders were placed immediately, however, deliveries would stretch out over a year or more. In the interim, production problems would

continue; in the absence of these expenditures, such problems will reduce recent levels of output. (C)

The shortfall in Zairian cobalt output next year is not expected to precipitate a global supply crisis. Production in other countries could rise by 5,000 tons. Zambia alone is planning to expand output by about 2,000 tons, roughly doubling its current production rate. Other anticipated increments to 1979 output include: Norway, 500 tons; Finland, 500 tons; Canada, 770 tons; South Africa, 160 tons; and Japan, possibly 1,000 tons (using ores from the Philippines). (U) (Confidential)

* * * * *

MALAYSIA: STEADY GROWTH AHEAD FOR MANUFACTURED EXPORTS (U)

With exports of manufactured products continuing to rise this year, Malaysia will join an exclusive group of LDC exporters whose annual sales of manufactures top $1 billion. Malaysia ranks eighth among LDC exporters, ahead of the Philippines and Thailand but well behind such middle-tier exporters as Singapore, India, and Brazil. Plentiful and inexpensive labor, a rich natural resource base, and government encouragement have enabled manufactured exports to grow at an impressive 38 percent annually in the 1970s. These gains have been based largely on the export of transistors and other semiconductors, phonograph and radio parts, wood manufactures, and clothing to OECD markets.* (U)

Despite some slowdown in total export growth over the next several years, Malaysia should continue to do well in selected markets. By the early 1980s exports of manufactured goods almost certainly will approach the $2 billion mark, as the government continues to capitalize on wage rates below other Asian LDC manufacturing centers. Moreover, Kuala Lumpur is taking a pragmatic approach toward implementing its policy of "Malayanizing" the economy to sustain inflows of foreign investment in manufacturing. (U)

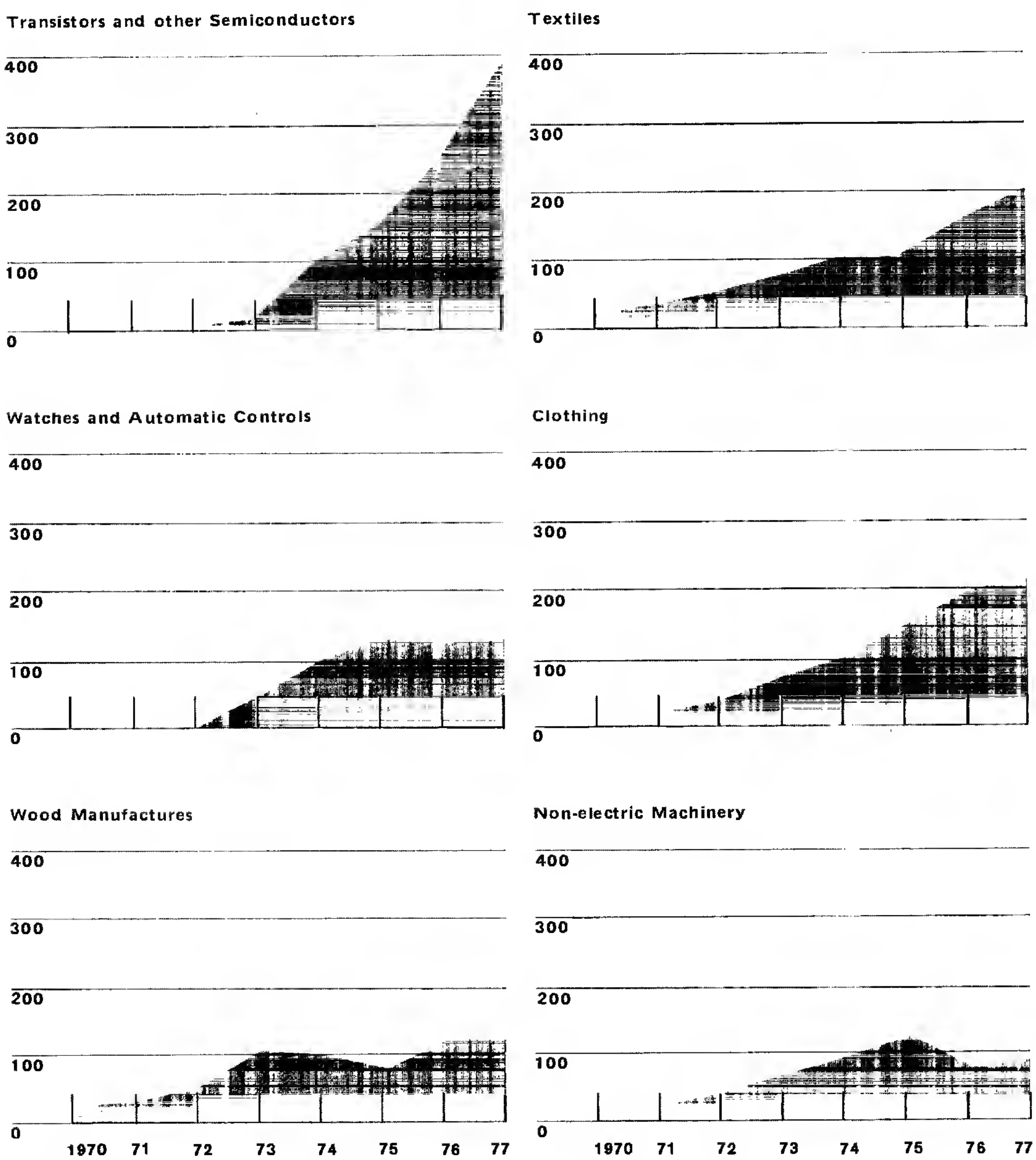
Export Dynamics

Export growth in the 1970s stems from economic policy decisions taken after Singapore's separation from the Malaysian Federation in 1965. At that time the Malaysian Government viewed development of export-oriented manufacturing industries as a means (a) cushioning fluctuations in export earnings of raw materials; (b) reducing the historic dependence on Singapore for processing and upgrading Malay-

* Export data in this article include the large volume of semiprocessed tin exports which distort underlying trends in manufactured exports. Tin exports amounted to $760 million in 1977. (U)

Malaysia: Commodity Export Trends

Dollar Value Index: 1974=100



Unclassified

578032 12-78 CIA

sia's raw materials; and (c) creating employment opportunities for a rapidly growing and increasingly youthful labor force. Serious anti-Chinese riots in 1969 by native Malays spurred the government to greater efforts to accelerate economic growth. In 1970, Kuala Lumpur enacted the Industrial Coordination Act to increase the stake of native Malays in the economy; the government hoped to raise the overall share of Malay ownership from the then existing 3 percent to 30 percent by 1990. In 1971-75, Malaysia established five Free Trade Zones to encourage investment in manufacturing and to create job opportunities for the growing labor force. Malaysia has also periodically improved the benefits to business enterprises provided under the Investment Incentive Act of 1968. (U)

The government's success is witnessed by the rise in manufactured exports from $100 million in 1970 to almost $1 billion in 1977. In the process, Malaysia has broadened its manufactured export product mix to include transistors and other semiconductors, phonograph and radio parts, and watches and automatic control devices in addition to processed raw materials. Consumer goods accounted for more than 30 percent of the overall gain in manufactured exports since 1970, transistors and other semiconductors 40 percent, processed raw materials (mainly wood and rubber products) almost 15 percent, and capital goods and miscellaneous items about 15 percent. (U)

Malaysia: Leading Manufactured Commodity Exports

	1970	1977[1]	1971-77
	(Million US $)		(Percent Growth)[2]
Total	**100**	**940**	**38**
Transistors and other semiconductors	5	328	82
Watches and automatic controls	2	143	84
Wood manufactures	29	126	23
Textiles	5	64	44
Clothing	5	62	43
Nonelectric machinery	12	58	25
Transport equipment	11	46	23
Chemicals	12	35	16
Rubber products	5	20	22
Footwear	2	16	35
Other	12	42	20

[1] Estimated.
[2] Average annual rate.

UNCLASSIFIED

Manufacturing in Malaysia runs the gamut from labor-intensive assembly operations to capital-intensive heavy industrial production such as oil refining and steel manufacturing. Much of export manufacturing in such fields as radios and

electric appliances consists of labor-intensive assembly of imported parts into finished products. Likewise, Malaysian workers in electronic factories in the Free Trade Zones assemble imported integrated circuits and other parts into calculators and other consumer products. (U)

Market Penetration

In the 1970s, OECD countries have replaced Asian LDCs as Malaysia's largest market for manufactured exports. Foreign sales to OECD countries increased from $32 million in 1970 to nearly $600 million in 1977, largely the result of increased sales of semiconductors, phonograph and radio parts, and consumer goods to the United States, West Germany, and Japan. Still, Malaysia holds only a small share of the OECD market, providing 0.3 percent of manufactured imports in 1977. Exports to LDCs go mainly to other East Asian countries, especially Singapore and Hong Kong. (U)

Malaysia: Destination of Manufactured Exports

	1970	1977 [1]	1971-77
	(Million US $)		(Percent Growth) [2]
World	100	940	38
OECD	32	589	52
United States	14	277	53
Japan	5	57	42
Australia	1	35	66
EC	11	185	50
West Germany	Negl	71	
United Kingdom	10	54	27
France	Negl	25	
Other	1	35	66
Other	1	35	66
LDCs	67	350	27
OPEC	8	47	29
Asian	57	291	26
Singapore	42	205	25
Hong Kong	5	42	36
Other	10	44	24
Non-Asian	2	12	29
Communist Countries	1	1	0

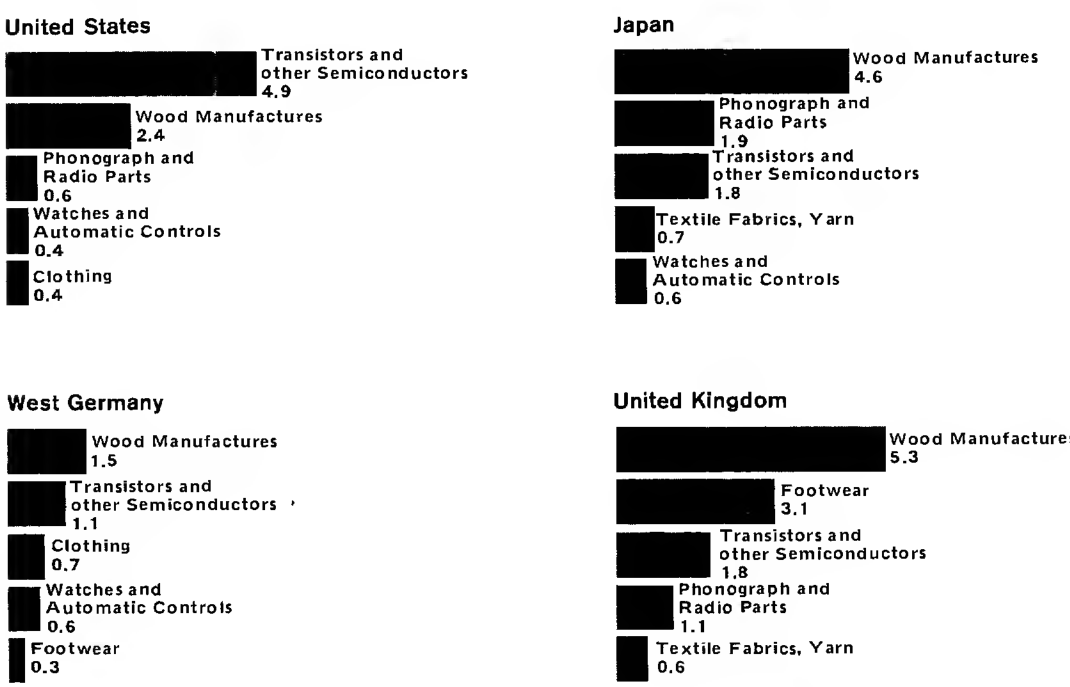
[1] Estimated.
[2] Average annual rate.

UNCLASSIFIED

United States

The United States is Malaysia's leading customer for manufactured exports. Led by sales of transistors and other semiconductors, wood manufactures, and phonograph and radio parts, exports of manufactured goods to the US market reached almost $280 million in 1977. Malaysia has done exceptionally well in exporting semiconductors, raising its share of the US import market from zero to 4.9 percent since 1970. As for phonograph and radio parts, Malaysia holds a 0.6-percent share of the US market, up from zero in 1970. Overall, Malaysia's share of the US import market in manufactures has grown from 0.1 percent in 1970 to 0.5 percent in 1977. (U)

Malaysia: Major Commodity Market Penetration, 1977[1]
Share of Import Market (Percent)



1. Excluding intra-EC trade.

Unclassified
578030 12-78 CIA

Other OECD

Manufactured exports to the EC reached $185 million in 1977, going mainly to West Germany and the United Kingdom where Malaysia has a 0.4-percent share of the import market.* Like several other LDCs, Malaysia has found that penetration of the clothing and textile import markets generates strong protectionist reaction; under restrictions imposed by the EC this year, Malaysia's share of items such as knitted shirts, T-shirts, blouses, and woven shirts are limited to an overall quota of 9.5 million pieces annually for five years. Despite proximity to Japan, sales to that market amount to less than $60 million annually. (U)

LDCs

Sales of manufactured goods to LDCs more than quintupled to $350 million from 1970 to 1977. Singapore, Malaysia's second largest market for manufactures, took $205 million in 1977, five times the amount bought in 1970. Semiconductors, wood manufactures, and watches are leading exports to Singapore. This same group of products boosted sales to Hong Kong from $5 million in 1970 to $42 million last year. Other Asian LDCs, including the Philippines and Thailand, together imported $44 million of Malaysia's manufactured exports in 1977. (U)

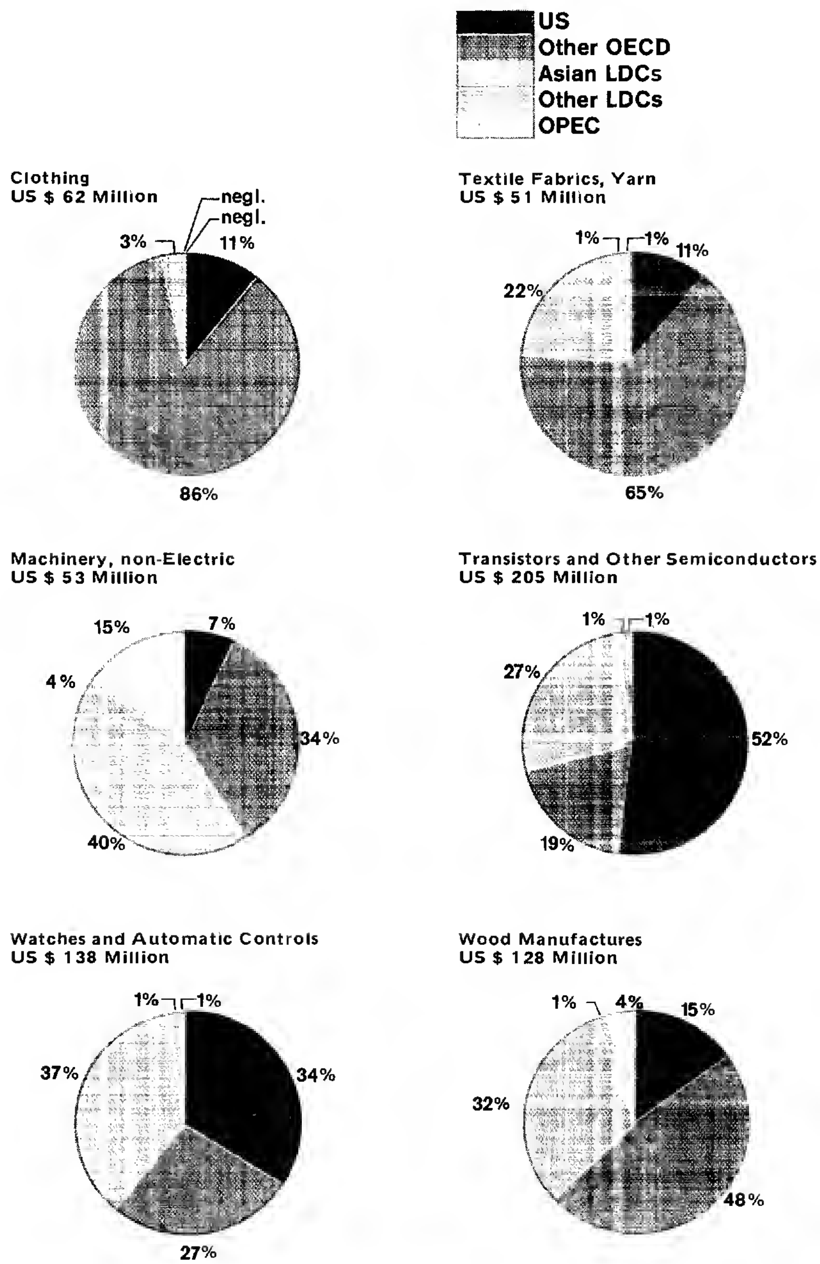
Competitive Factors

Malaysia has capitalized on several basic economic strengths to spur exports of manufactured products in the 1970s. Rich natural resources, particularly timber, have underpinned several export manufacturing industries. A well-educated labor force of 4.5 million and competitive wage rates have also given Malaysian exports an advantage. In 1977 average hourly earnings in Malaysia of 52 cents were about 20 percent lower than earnings in South Korea, Taiwan, and Singapore. Malaysia has also benefited from its proximity to Singapore, which gives Malaysian firms access to that country's international financial and commerical connections. (U)

Malaysia has seen some of its export competitiveness erode in the last three to five years. Average dollar prices of its manufactured exports have increased slightly faster than the prices of its regional competitors. Labor productivity has increased only 2.7 percent annually since 1973, substantially lower than gains achieved by Singapore and South Korea. Wages have been rising, but unit labor costs are still below costs in other

* Malaysia's market share in EC countries decreases considerably when intra-EC trade is taken into account, dropping from 0.3 percent to 0.1 percent of all EC manufactured imports. Its share of both West Germany's and the United Kingdom's manufactured imports, for example, drops to 0.2 percent. (U)

Malaysia: Selected Exports by Destination, 1976



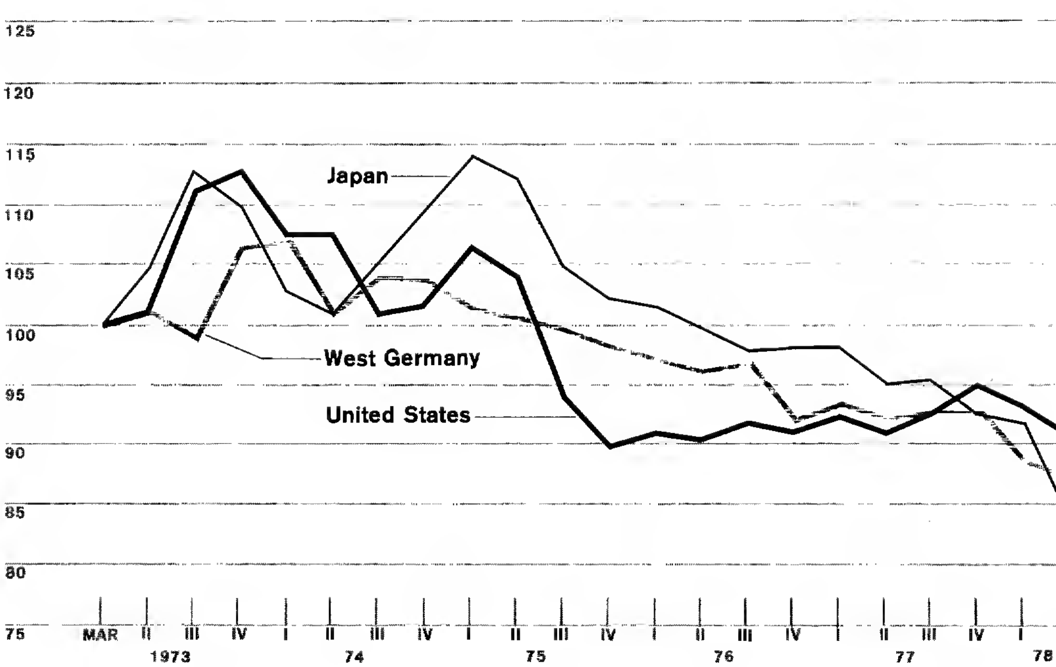
Unclassified

578029 12-78 CIA

Asian exporting nations. Some of the upward pressure on export prices has been offset by depreciation of the Malaysian ringgit. Since early 1975, the ringgit has depreciated on a bilateral, price-adjusted basis 15 percent against the US dollar, 14 percent against the West German mark, and 26 percent against the Japanese yen. (U)

Multinational corporations have played a key role in export growth, particularly in the electronics industry, which now employs 50,000 workers. Among the leading US multinationals operating in Malaysia are Motorola, RCA, and Texas Instruments; foreign multinationals include Matsushita and the Dutch electronics gaint, Philips. The multinationals have used Malaysia as a base to supply both developed country and LDC markets; in the process, they have made Malaysia one of the major exporters of semiconductors and electronic products in the world. (U)

Malaysia: Price Adjusted Bilateral Exchange Rates
Index: March 1973=100



Unclassified
578031 12-78 CIA

Government Policy

Kuala Lumpur has used a variety of direct and indirect incentives to spur exports of manufactured products including (a) accelerated depreciation allowances for firms exporting 20 percent or more of outputs; (b) income tax deductions for promotion expenses; (c) income tax deductions for increasing export sales that incorporate domestic materials and components; (d) export financing at preferential interest rates; and (e) substantial technical marketing assistance from the Ministry of Trade. (U)

To boost foreign investment inflows, Kuala Lumpur is currently considering the sweetening of the incentives package as well as improvements in ports and inland transportation systems. In response to frequent investor complaints about red tape for new ventures, the government recently introduced procedures to make the Federal Industrial Development Authority truly a one-stop promotion agency. As part of the effort to garner new foreign investment, government trade officials this year sponsored investment conferences in the United Kingdom, West Germany, France, Denmark, and the United States. (U)

Kuala Lumpur goes to great lengths to assure potential foreign investors that its policy of fostering greater participation in the economy by native Malays poses no threat to their interests. Although preferring joint ventures with majority ownership in Malay hands, the government has shown considerable flexibility toward the allowable share of foreign ownership. Indeed, it will permit 100-percent foreign ownership if the project is entirely export oriented. (C)

The benefits of the Generalized System of Preferences (GSP) to Malaysia have been partially offset by recent rises in nontariff barriers, such as quotas on clothing and textiles. Even so, Malaysia is one of its important beneficiaries, particularly in US and EC markets. In 1976, $210 million worth of its manufactured exports were eligible for GSP coverage, about one-twentieth of the total benefit accruing to all LDCs. Malaysia has campaigned for increased GSP coverage of its exports. Last year, for example, it joined other members of ASEAN (Singapore, Indonesia, the Philippines, and Thailand) in urging the developed countries to extend product coverage, deepen tariff cuts, and liberalize rules of origin. (U)

Moving Into the 1980s

We expect Malaysia's manufactured exports to grow at 20 percent annually in the next few years, a pace that would raise foreign sales to approximately $2 billion by the early 1980s. Malaysia should continue to benefit from its competitive edge in labor costs; the annual entry of 150,000 young workers to the labor force, should moderate

wage increases over the next few years. As countries such as Taiwan and Singapore emphasize more capital-intensive industries to overcome rising unit labor costs, Malaysia stands to gain new labor-intensive manufacturing operations. Indeed, Singapore's Prime Minister Lee Kuan Yew has said that he hopes much of his country's existing labor-intensive industry moves to other East Asian countries—such as Malaysia—over the next several years because he sees little hope of remaining competitive. (U) (Confidential)

* * * * *

USSR: IMPROVED TRADE BALANCE (U)

The USSR managed to hold down its third quarter hard currency trade deficit to $400 million by boosting exports while reducing both grain and nongrain imports. We expect this trend to continue, putting trade roughly in balance in the fourth quarter. The 1978 hard currency trade deficit would thus equal the accumulative three-quarter figure of $3.4 billion. The deficit for 1979 should be lower because of reduced imports and higher exports. (U)

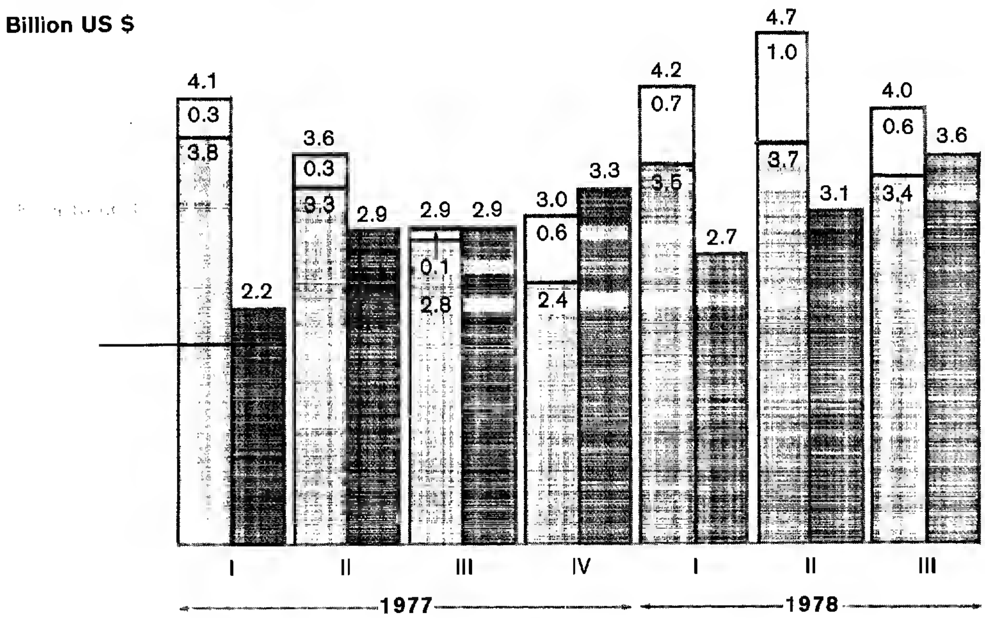
Hard Currency Imports

Soviet imports through September amounted to $12.8 billion—a 20-percent rise over the same period in 1977. A jump in grain deliveries after the disappointing 1977 harvest caused most of the increase. Fourth quarter grain imports are expected to drop sharply, reflecting in part this year's bumper crop. Nongrain imports for the first nine months were up slightly. Data from major Western suppliers show a small increase in sales of machinery to the USSR. Last year's substantial drop in Soviet equipment orders, however, points to a decline in machinery deliveries, perhaps beginning in fourth quarter 1978. (U)

Hard Currency Exports

Exports in the first three quarters of 1978 were $9.4 billion, 18 percent more than in the first three quarters of 1977. Except for West Germany, Soviet exports to its major Western trade partners grew little and in some cases declined substantially. Deliveries to the United Kingdom, Japan, and the United States were off 10 percent while exports to the Netherlands fell by nearly 30 percent. The year-to-year increase in exports has been slowed by stagnation in the volume of oil exports; oil deliveries in 1978 are expected to be about the same as in 1977 (1.1 million b/d). Soviet exports to Iraq—traditionally machinery and equipment—more than doubled, accounting for most of the 65 percent gain in hard currency sales to developing countries. Exports to

USSR: Hard Currency Trade[1]



[1] Trade totals are based on official USSR foreign trade statistics while the value of Soviet grain imports are from Western partner country reporting. The "Other" category is a residual. Import data for 1977 exclude about $890 million worth of machinery and pipe bought by the USSR on behalf of other CEMA members. These imports were used in the construction of the Orenburg pipeline—a joint CEMA project.

Secret

578044 12-78 CIA

Ethiopia, Libya, and Nigeria also increased. Fourth quarter exports are expected to rise over third quarter levels because of both secular trend and seasonal factors. (U)

Financing the Deficit

Moscow has easily covered its 1978 hard currency trade deficit. Earnings through September from gold sales—estimated at more than $2 billion—already exceed those for all of 1977 by roughly $500 million. In addition, drawings on an ample supply of long-term government-backed credits for equipment purchases, substantial Soviet holdings of foreign exchange, and arms sales have left the Soviets in a strong payments position. (S)

Outlook for 1979

The 1979 Soviet national economic plan calls for enlarging the share of trade with

other socialist countries, and implies a continued slowdown in the growth of trade with the West. The hard currency trade deficit next year is likely to be lower than in 1978. Machinery imports should be down as a result of the substantial cutback in 1977-78 Soviet orders for Western equipment. Grain deliveries next year are unlikely to increase because of this year's large harvest and high level of imports. Although the outlook for exports in 1979 is less certain, a moderate rise seems likely. Total Soviet oil exports next year probably will not increase and could drop by as much as 100,000 b/d; the expected price rise could bring a small increase in receipts. (Oil deliveries account for about one-half of Soviet hard currency earnings.) Meanwhile, Soviet exports of gas should increase by 20 percent, to roughly $960 million, while the growth of other exports will be limited by sluggish economic conditions in the West. (U) (Secret)

* * * * *

OPEC COUNTRIES: FALLING EXPORTS, RISING IMPORTS (U)

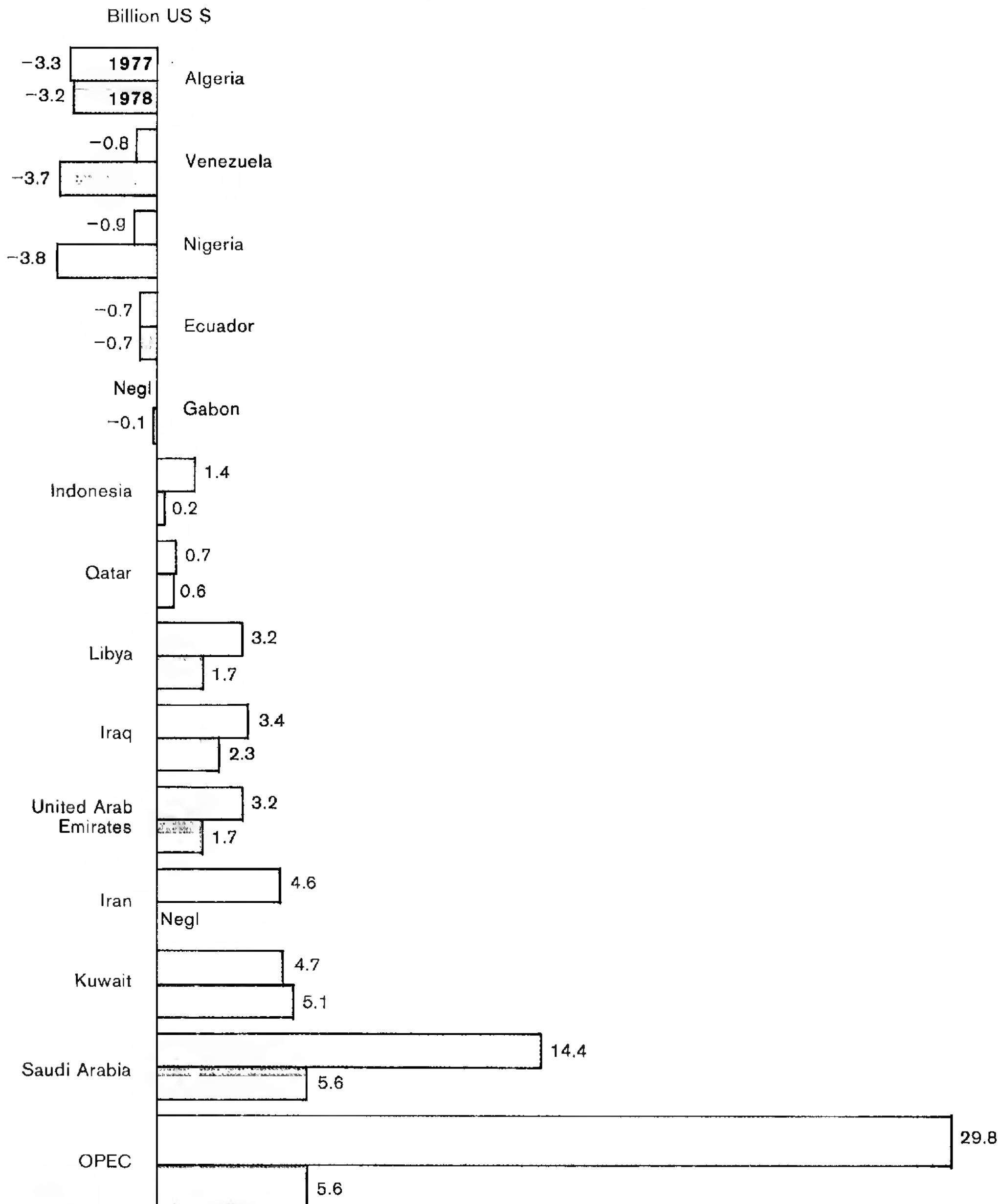
Most OPEC countries have suffered a serious deterioration in their current account positions in 1978 because of reduced world demand for OPEC oil and import price inflation. The rise in import prices has resulted primarily from the depreciation of the dollar against the currencies of the other industrialized countries and secondarily from domestic inflation within supplier countries. As a consequence of these unfavorable developments, most OPEC countries will slow down their foreign investment and increase their foreign borrowing. (U)

Current Account

The overall current account surplus of the OPEC countries is expected to drop to less than $6 billion in 1978, down 80 percent from the 1977 level. The surplus will be roughly $3 billion in each half of 1978. (U)

Saudi Arabia, faced with declining oil export earnings and rising import expenditures, will account for more than 36 percent of the decline in OPEC's surplus from 1977 to 1978. The same factors plus serious domestic turmoil will move the Iranian current account into balance or even produce a small deficit in 1978 after a $4.6 billion surplus in 1977. Venezuela and Nigeria will each see their deficits grow by $2.9 billion. In Venezuela, the primary cause will be rapidly rising import expenditures; in Nigeria, declining oil revenues as well as increased import spending are taking their toll. Among OPEC countries, only Kuwait and Algeria will improve their current account positions this year. (U)

OPEC Countries: Estimated Current Account Balances, 1977 and 1978



Unclassified
577995 12-78

OPEC: Estimated Current Account Balances and Projections

Billion US $

	1977		1978				Assumed oil prices rise Jan 1979			
	1st Half	2d Half	1st Half	2d Half	1977	1978	0%	5%	10%	15%
Exports (f.o.b.)	72.3	73.7	67.1	73.1	146.0	140.2	144.5	150.9	157.3	163.8
Oil	67.5	68.9	61.7	67.6	136.4	129.3	132.3	138.7	145.2	151.6
Nonoil	4.8	4.8	5.4	5.4	9.6	10.9	12.2	12.2	12.2	12.2
Imports (f.o.b.)	39.3	44.8	46.8	51.7	84.1	98.6	112.7	113.8	114.9	115.9
Trade balance	33.0	28.9	20.3	21.3	61.9	41.6	31.8	37.1	42.5	47.8
Net services and private transfers	−13.2	−14.1	−15.8	−16.5	−27.3	−32.3	−35.5	−35.6	−35.6	−35.6
Freight and insurance	−5.9	−6.7	−6.5	−7.2	−12.6	−13.8	−13.9	−14.0	−14.2	−14.3
Investment income receipts	4.3	4.3	4.7	4.7	8.5	9.5	9.5	9.6	9.7	9.8
Other	−11.6	−11.6	−14.0	−14.0	−23.3	−28.1	−31.1	−31.1	−31.1	−31.1
Grants	−2.1	−2.7	−1.8	−1.8	−4.8	−3.6	−3.4	−3.4	−3.4	−3.4
Current account balance	**17.7**	**12.1**	**2.6**	**3.0**	**29.8**	**5.6**	**−7.2**	**−1.9**	**3.5**	**8.8**

UNCLASSIFIED

Oil Exports

Slack world demand for OPEC oil, partly reflecting growing output from the North Sea, Alaskan North Slope, and Mexico, cut OPEC export earnings sharply in the first three-quarters of 1978. Oil exports of nearly all cartel members, skyrocketed in the fourth quarter, however, as liftings increased in anticipation of a January 1979 oil price hike. Total OPEC oil revenues in 1978 will be an estimated $129 billion, down $7 billion from record 1977 levels. OPEC's oil exports are projected to drop by 1.6 million b/d in 1978, to 28.0 million b/d. (U)

The impact of the softer oil market has varied widely among OPEC countries:

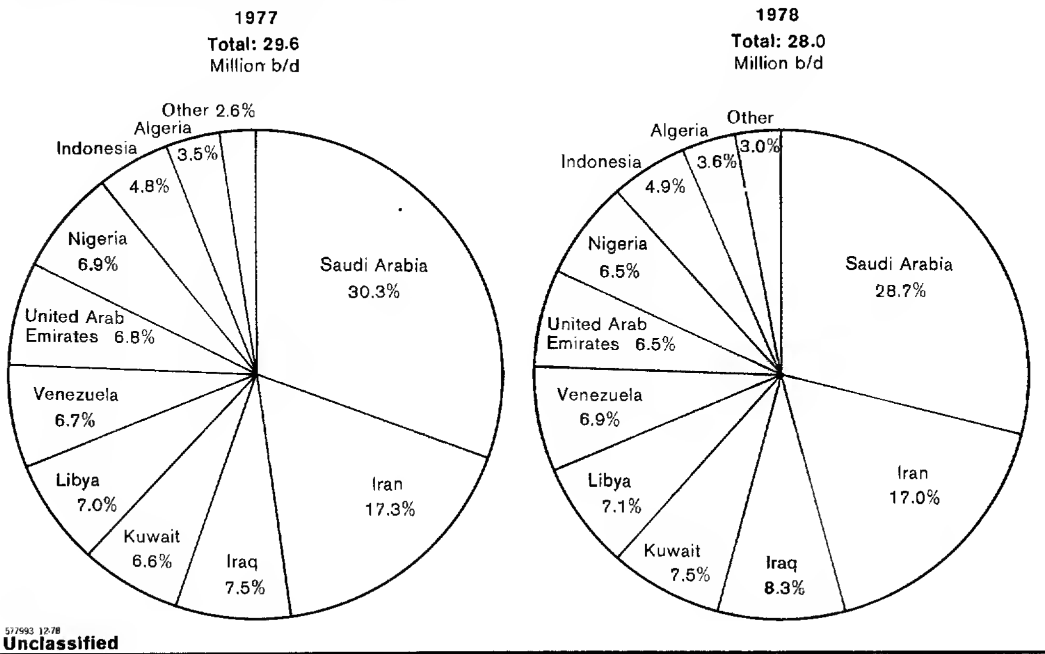
- Saudi Arabian oil export earnings will drop by an estimated $3.3 billion in 1978.

- Iran will lose an estimated $2 billion in oil revenues this year. The oilfield workers' strike in the fourth quarter is a major factor in the Iranian shortfall.

- Nigerian oil revenues will decline $1.5 billion in 1978 as a result of sluggish first quarter demand for high-quality crude.

- Stepped-up sales will raise the oil export revenues of Iraq, Kuwait, and Qatar above 1977 levels. (U)

OPEC Countries: Estimated Oil Exports



There were small changes in the export shares of individual cartel members in 1978. Oil production restrictions—ceilings on production and/or share restrictions on liftings of light crude—have been imposed by Saudi Arabia and the United Arab Emirates. On the other hand, the reduced Iranian oil liftings have resulted in increased exports by some producers, especially Saudi Arabia. Overpricing of crude resulted in slack sales in Kuwait, Ecuador, Algeria, Libya, and Nigeria early in the year; they then adjusted price differentials between their crudes and Saudi benchmark crude, and exports picked up. (U)

Nonoil Exports

The value of OPEC nonoil exports, including reexports, will be $11 billion in 1978, roughly 8 percent of total export earnings. Increased sales of liquefied natural gas will nearly triple Algerian nonoil exports. Kuwaiti nonoil exports will grow almost 30 percent because of increasing reexports of manufactured goods and, to a lesser extent, growing fertilizer sales. In Indonesia and Venezuela, nonoil exports will grow more slowly. Declining market prices of cocoa and coffee had a large negative impact on Nigerian and Ecuadorian nonoil exports, respectively. The value of nonoil exports from Nigeria will stagnate after increasing by 50 percent in 1977; Ecuadorian nonoil exports will fall in 1978. (U)

Imports

In 1978 the value of OPEC imports is expected to rise by 17 percent, to $99 billion. Both the amount and the causes of import spending growth vary widely among cartel members; some even will experience a decline in the real value of imports:

- Increased development spending will raise imports over 20 percent from 1977 levels in Iraq, Saudi Arabia, the UAE, Qatar, and Venezuela.

- Spiraling import price inflation will cause nearly all of the 15 to 20 percent growth in import expenditures in Indonesia, Kuwait, and Libya this year.

- In Iran, dock worker strikes and internal political unrest hampered import offloading in the fourth quarter of 1978, and imports will be only about 14 percent above the 1977 level.

- Algeria, Ecuador, Gabon, and Nigeria will constrain import spending in 1978 in order to hold down their current account deficits.

Import prices for OPEC countries rose 14 percent in 1978. They were particularly hard hit by exchange rate changes because oil revenues are collected in dollars. The depreciating dollar accounted for 80 percent of import price inflation; inflation in the developed countries accounted for the remainder. Import volume will only grow 2 percent this year. (U)

Service Expenditures

We estimate that combined OPEC deficit on invisibles in 1978 will be $32 billion, $5 billion above the 1977 level. Growth in expenditures for freight and insurance, foreign technology fees, interest payments on debts, and net private remittances will far exceed the increase in investment income receipts. (U)

For most OPEC countries, freight and insurance costs will remain level. In Saudi Arabia, however, an improved internal transportation network and an easing of port congestion (the latter holds for Iran also) should lower these costs, while Nigeria continues to be plagued by severely congested ports. As a result of the diminishing surplus, investment income receipts for OPEC countries in 1978 will rise less rapidly than in 1977, increasing only $1 billion. At the same time imports of other services will rise 20 percent on the average. In Gabon, Iran, Kuwait, Qatar, and Saudi Arabia, other service payments will increase more than 20 percent owing to large imports of foreign technology and services for infrastructure development, while Venezuela's expendi-

Approved For Release 2002/05/07 : CIA-RDP80T00702A001000040001-5

tures will grow by one-half because of burgeoning payments for debt service and travel. (U)

Surplus for Investment

With OPEC's sharp current account dropoff in 1978, its ability to finance capital outlays will diminish. Nonetheless, the investable surplus will contract less rapidly than the current account, due to OPEC's increased borrowings in international capital markets this year. Total loan commitments to OPEC countries in 1978 include $13 billion in publicly announced syndicated bank loans, and $2-$3 billion more from other private and governmental sources. Probably only $6-$10 billion worth of these commitments will be drawn upon in 1978. (C)

OPEC: Investable Surplus

Billion US $

	1976	Preliminary 1977	Projected 1978
Investable surplus	33	44	11-19
Sources of investable surplus			
Current account surplus	36	30	4- 8
Loan receipts	4	11	6-10
Change in oil company indebtedness	−7	3	1
Uses of investable surplus			
Official foreign asset accumulation	26	32	6-10
Other use of funds (Net of adjustment for changes in asset values due to exchange rate fluctuations)	7	12	5- 9

CONFIDENTIAL

As in previous years, OPEC countries will use the bulk of their available funds to add to official foreign asset portfolios. New OPEC official foreign investment will probably be between $6 billion and $10 billion in 1978, down from $32 billion in 1977. The proportion of surplus OPEC funds placed in short-term assets is likely to increase as OPEC governments ajust their asset portfolio to compensate for increased import costs and the fall-off in oil revenues. A slowdown in private foreign investment from OPEC countries is also likely in 1978. Other uses of surplus funds will include OPEC subscriptions to multilateral aid institutions and amortization of past foreign borrowings, especially by Algeria, Indonesia, Iran, and Venezuela. (C)

Prospects for 1979

The outlook for the OPEC current account surplus in 1979 will depend primarily on the pricing decision made by the cartel at its regular ministerial meeting in Abu

Dhabi this week. OPEC's current account balance in 1979, for example, could fall to a $7 billion deficit if prices are frozen, or rise as high as a $9 billion surplus, if a January 15-percent increase is established. The situation in Iran will also be a key factor. (U)

All major components of the OPEC current account are projected to increase in 1979. OPEC oil revenues could range from $132 billion to $152 billion depending on the price increase. The volume of oil exports in 1979 is expected to rise by nearly 700,000 b/d from the 1978 level, to about 28.6 million b/d. In any case, oil revenues will comprise more than 90 percent of total export earnings. OPEC imports are anticipated to rise to $113-$116 billion in 1979—up some 14 to 18 percent from 1978, reflecting both a 6.5- to 8-percent increase due to import price inflation and a 7- to 9-percent growth in import volumes. The net services deficit will probably increase by 10 percent to $36 billion reflecting continued growth in development-related services and debt service and slackened growth in investment income. (U)

Without a 1979 oil price increase of at least 10 percent, OPEC as a whole will almost certainly become a net borrower of funds next year. Loan commitments will probably approach $15 billion as cartel members continue to rely on external financing to deal with balance-of payments problems and pay for capital-intensive development projects. Asset accumulations will decline if the current account surplus falls from the already-low 1978 level. (C) (Confidential Noforn)

* * * * *

Notes

Italy To Join EMS Despite Communist Opposition (U)

Prime Minister Giulio Andreotti has won parliamentary approval of his government's decision to take Italy into the European Monetary System (EMS) on 1 January, notwithstanding opposition from the Communists. Although PCI members abstained on parts of the government resolution that referred in general terms to Andreotti's economic goals and to Italy's European commitment, they voted to keep Italy outside the system. The resolution passed the parliamentary test because the Socialists—Italy's third largest party, after the Christian Democrats and Communists—were persuaded to swallow their own objections and abstain. (U)

Communist spokesmen argue that EMS will have a deflationary impact on the Italian economy. They probably will try to impute future economic difficulties to membership in the system. Political infighting in Rome threatens to make Italy's affair with EMS stormy and perhaps short. (U) (Unclassified)

US Deals Hit New High at Canton Fair (U)

US sales and purchases at China's 1978 Fall Canton Trade Fair reached record levels. Purchases—consisting largely of textile products—rose to $60 million, up 35 percent from the level achieved at the spring fair and 20 percent above the record established last fall. The upswing was facilitated by stable prices for most Chinese goods and by a continued trend toward greater Chinese flexibility on contract terms. US sales came to about $80 million, almost three times the level achieved at any earlier fair. Polyester chips, pharmaceuticals, and agricultural chemicals made up the bulk of Chinese purchases. (U)

The increase in transactions at the fair, although impressive, actually understates the current rise in overall US-China trade. We estimate US exports to China may top $800 million in 1978, more than four times last year's figure. Renewed Chinese purchases of US wheat and corn will account for most of the increase. US imports are also expected to show a substantial growth, perhaps to $340 million, 70 percent more than the record set in 1977. Next year, total US-China trade may top $1.4 billion, with US shipments of agricultural products rising to more than $900 million. (U) (Unclassified)

Arab States Discuss Baghdad Aid Commitments (U)

A survey of Arab donor intentions indicate that the new financial aid arrangements stemming from the November Baghdad Arab Summit agreement will be less striking then announced earlier. At the Summit meeting the donor states had agreed (a) to pay out $3.5 billion annually for 10 years as follows: Syria, $1.85 billion; Jordan, $1.25 billion; and the PLO, Gaza, and the West Bank municipalities, $400 million; and (b) to discontinue financial support for Egypt should Cairo sign a peace treaty with Israel. We now believe, however, that little more aid will be made available to Syria or Jordan in 1979 than in previous years and that Arab aid to Egypt might continue even if a peace treaty is signed. (C)

Libya and Algeria, which together would provide about one-quarter of the total Baghdad commitment, will probably renege on their pledges. Libyan President Qadhafi has long been cool to the idea of contributing to such a consortium fund because he sees no political benefit to Libya; furthermore, he regarded the Summit's indictment of Sadat as far too mild. Algeria will likely withhold assistance partly out of sympathy to the Libyan position and partly due to a critical shortage of funds. (C)

Saudi Arabia, Kuwait, the United Arab Emirates, and Qatar were reluctant participants in the Summit. Even if the largest donors, Saudi Arabia and Kuwait,

honored their respective pledges of $1 billion and $550 million, the portions earmarked for Jordan and Syria would merely approximate the corresponding 1977 sums. Although the aggregate pledges of the UAE ($400 million) and Qatar ($230 million) at the Summit represent a substantial increase over 1977 levels, these donors are unlikely to meet their obligations. Both have encountered periodic cash flow problems and have been delinquent in meeting past commitments. (S)

Iraq, with pledges of $460 million, is the most likely source of additional aid for Syria and Jordan, but even this prospect is uncertain. Iraqi assistance to Syria is contingent on a continuation of progress in conciliating past differences between rival Baathist regimes in the two countries (C)

As for a conclusion of a peace treaty with Israel, the UAE and Qatar have already indicated that they intend to continue to make funds available to Egypt, and Saudi Arabia may also continue its support, especially if some agreement on the West Bank and Gaza Strip questions is reached. According to Egyptian Vice-President Mubarak, the Saudis have indicated that they intend to continue financial assistance to Cairo, including at least partial financing of Egypt's purchase of F-5 fighter aircraft from the United States. (C) (Secret Noforn)

Publication of Interest *

Arms Flows to LDCs: US-Soviet Comparisons, 1974-77 (ER 78-10494U, November 1978, Unclassified)

This publication presents alternative methods of assessing the magnitude of Soviet arms sales and deliveries to LDCs in 1974-77 and comparing these activities with corresponding US programs. US and Soviet arms flows are compared in terms of: physical units, actual prices charged recipients, and US dollar export costs. A Confidential version of this report was published in August 1978.

* Copies of this publication may be obtained by calling NFAC/PPG Registry and Dissemination Branch, 25X1A

Approved For Release 2002/05/07 : CIA-RDP80T00702A001000040001-5

National
Foreign
Assessment
Center

Economic Indicators Weekly Review

15 December 1978

ER EI 78-050
15 December 1978

This publication is prepared for the use of U.S. Government officials. The format, coverage and contents of the publication are designed to meet the specific requirements of those users. U.S. Government officials may obtain additional copies of this document directly or through liaison channels from the Central Intelligence Agency.

Non-U.S. Government users may obtain this along with similar CIA publications on a subscription basis by addressing inquiries to:

Document Expediting (DOCEX) Project
Exchange and Gift Division
Library of Congress
Washington, D.C. 20540

Non-U.S. Government users not interested in the DOCEX Project subscription service may purchase reproductions of specific publications on an individual basis from:

Photoduplication Service
Library of Congress
Washington, D.C. 20540

Approved For Release 2002/05/07 : CIA-RDP80T00702A001000040001-5

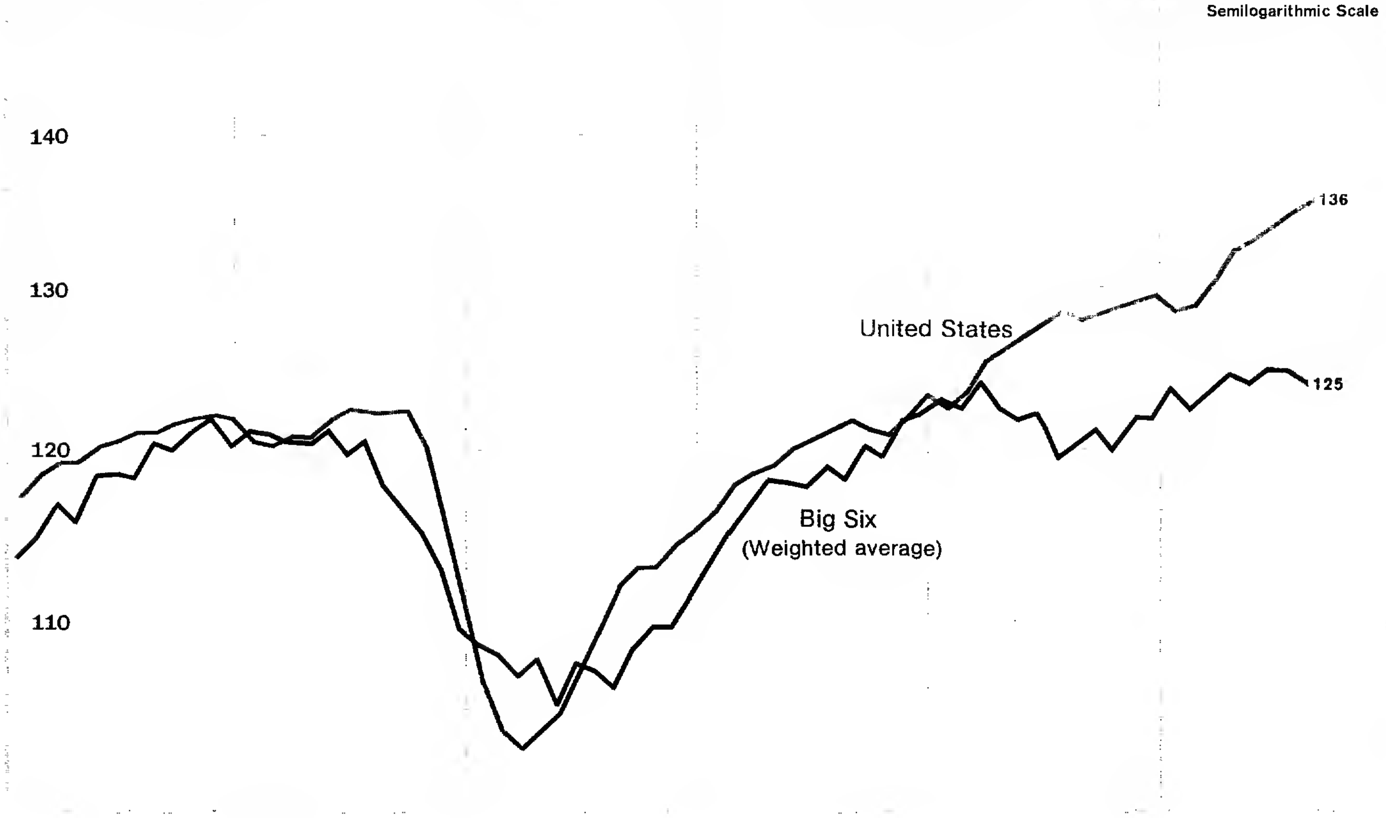
FOREWORD

1. The **Economic Indicators Weekly Review** provides up-to-date information on changes in the domestic and external economic activities of the major non-Communist developed countries. To the extent possible, the **Economic Indicators Weekly Review** is updated from press ticker and Embassy reporting, so that the results are made available to the reader weeks—or sometimes months—before receipt of official statistical publications. US data are provided by US government agencies.

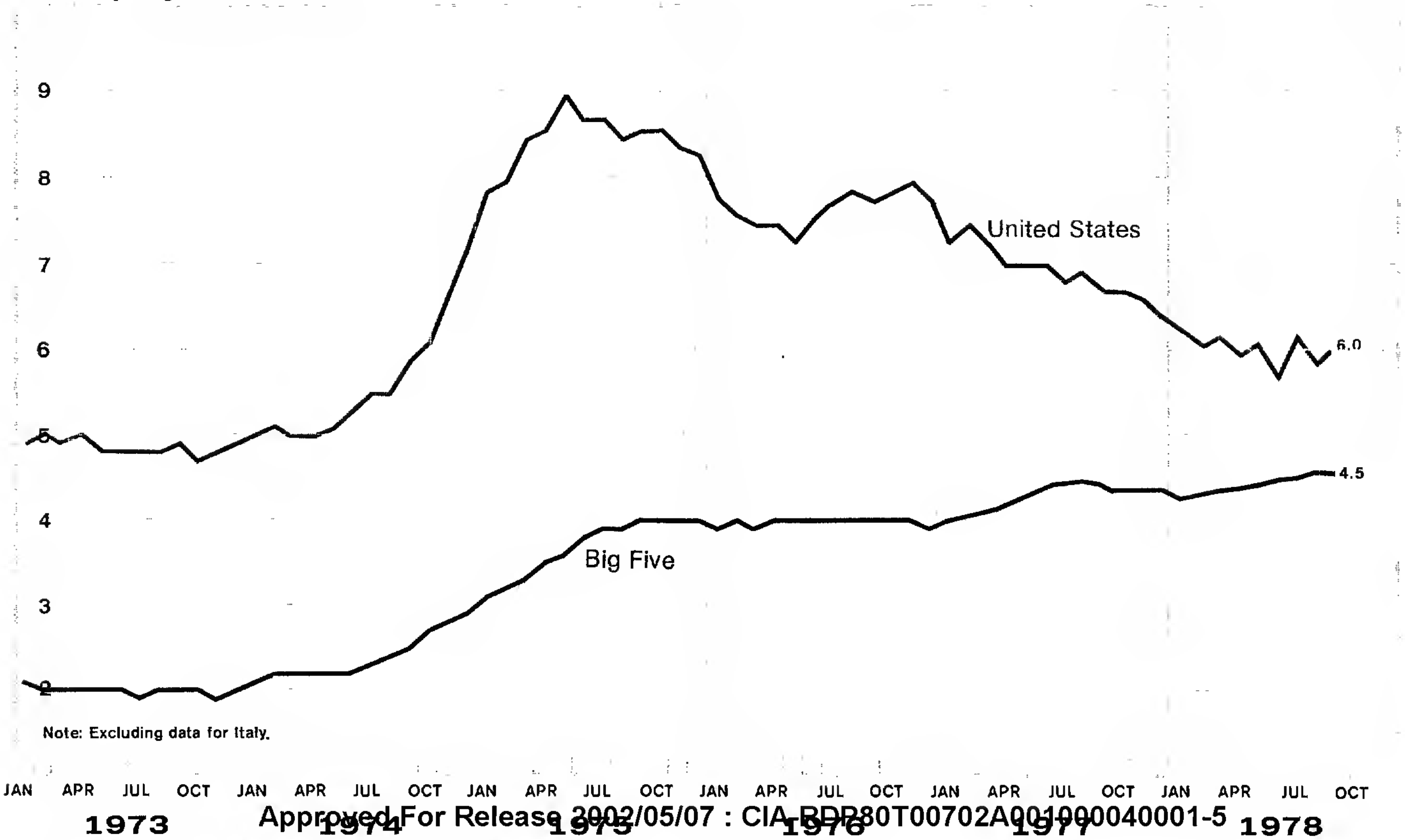
2. Source notes for the **Economic Indicators Weekly Review** are revised every few months. The most recent date of publication of source notes is 16 February 1978. Comments and queries regarding the **Economic Indicators Weekly Review** are welcomed.

BIG SIX FOREIGN COUNTRIES[1] COMPOSITE INDICATORS

Industrial Production — **INDEX: 1970=100, seasonally adjusted**



Unemployment Rate — **Percent**

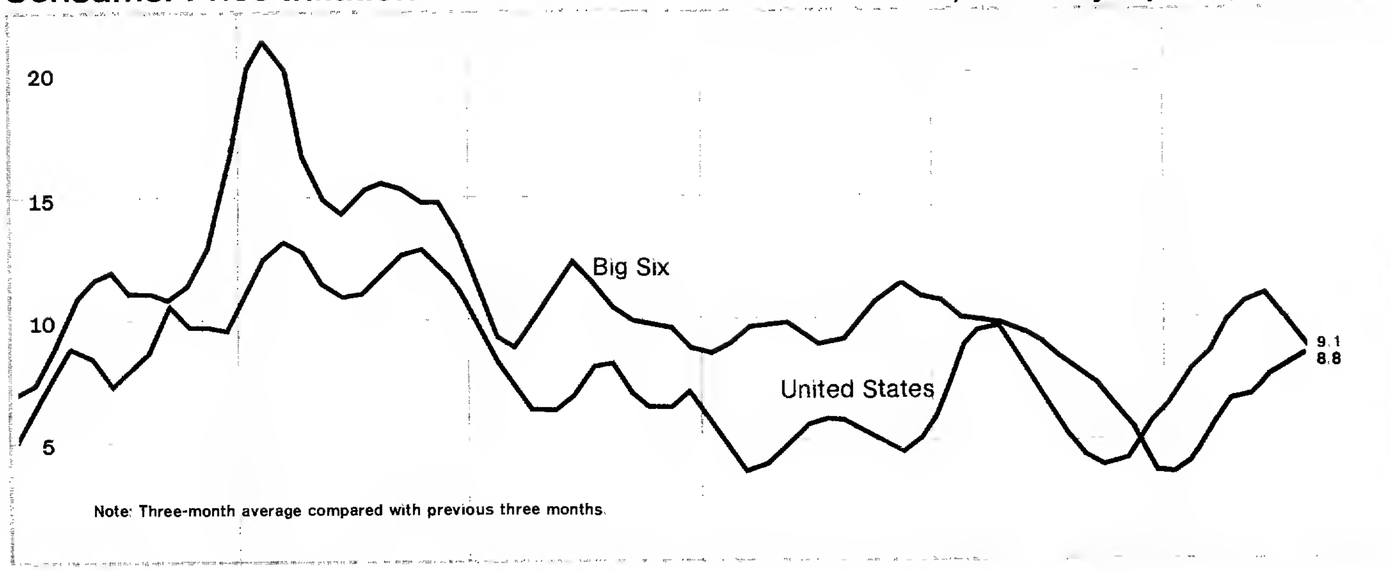


Note: Excluding data for Italy.

[1]Including Japan, West Germany, France, the United Kingdom, Italy, and Canada.

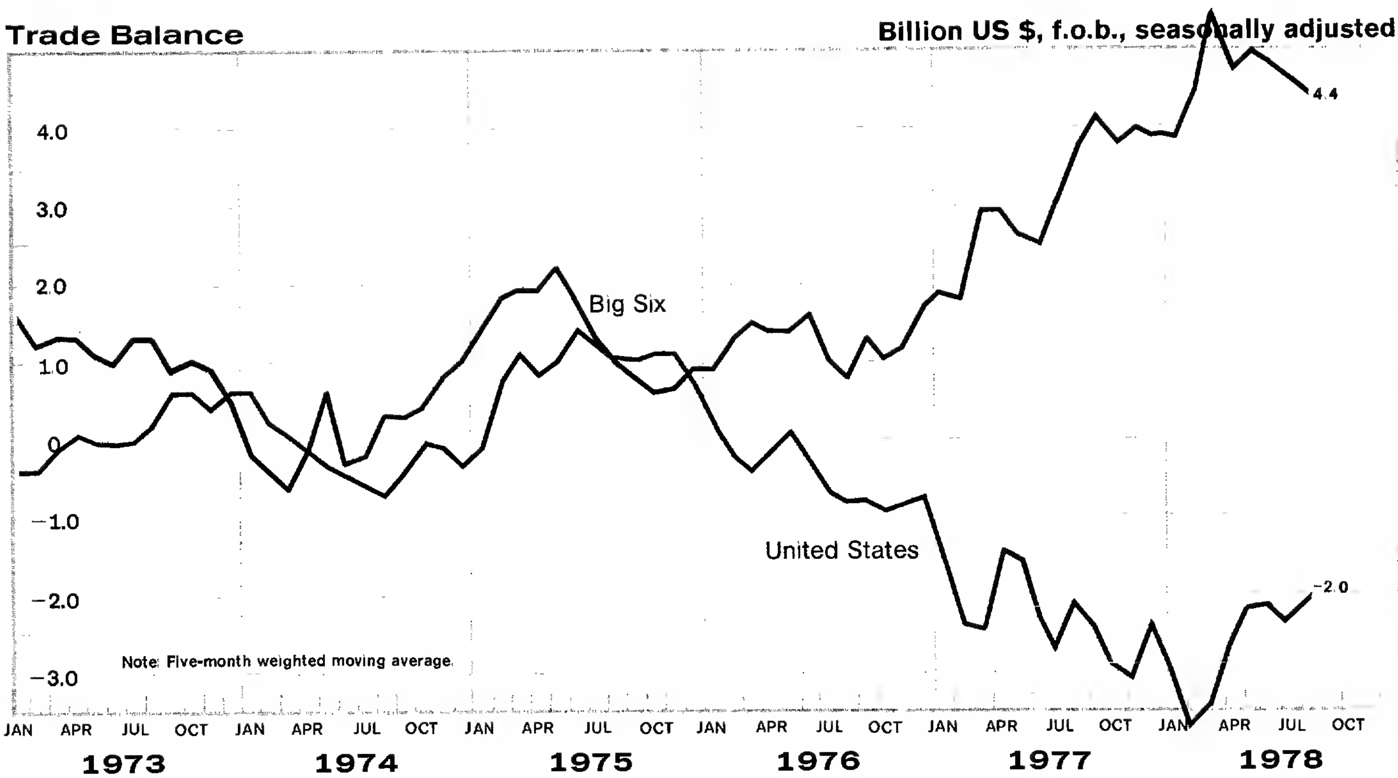
Consumer Price Inflation

Percent, seasonally adjusted, annual rate



Trade Balance

Billion US $, f.o.b., seasonally adjusted



	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[2]
Industrial Production					
Big Six	AUG 78	−0.6	2.8	3.1	1.8
United States	AUG 78	0.6	3.9	6.4	9.7
Consumer Prices					
Big Six	SEP 78	0.3	9.2	6.3	8.8
United States	SEP 78	0.8	6.8	8.3	9.1

	LATEST MONTH		1 Year Earlier	3 Months Earlier
Unemployment Rate				
Big Five	SEP 78	4.5	4.4	4.5
United States	SEP 78	6.0	6.8	5.7

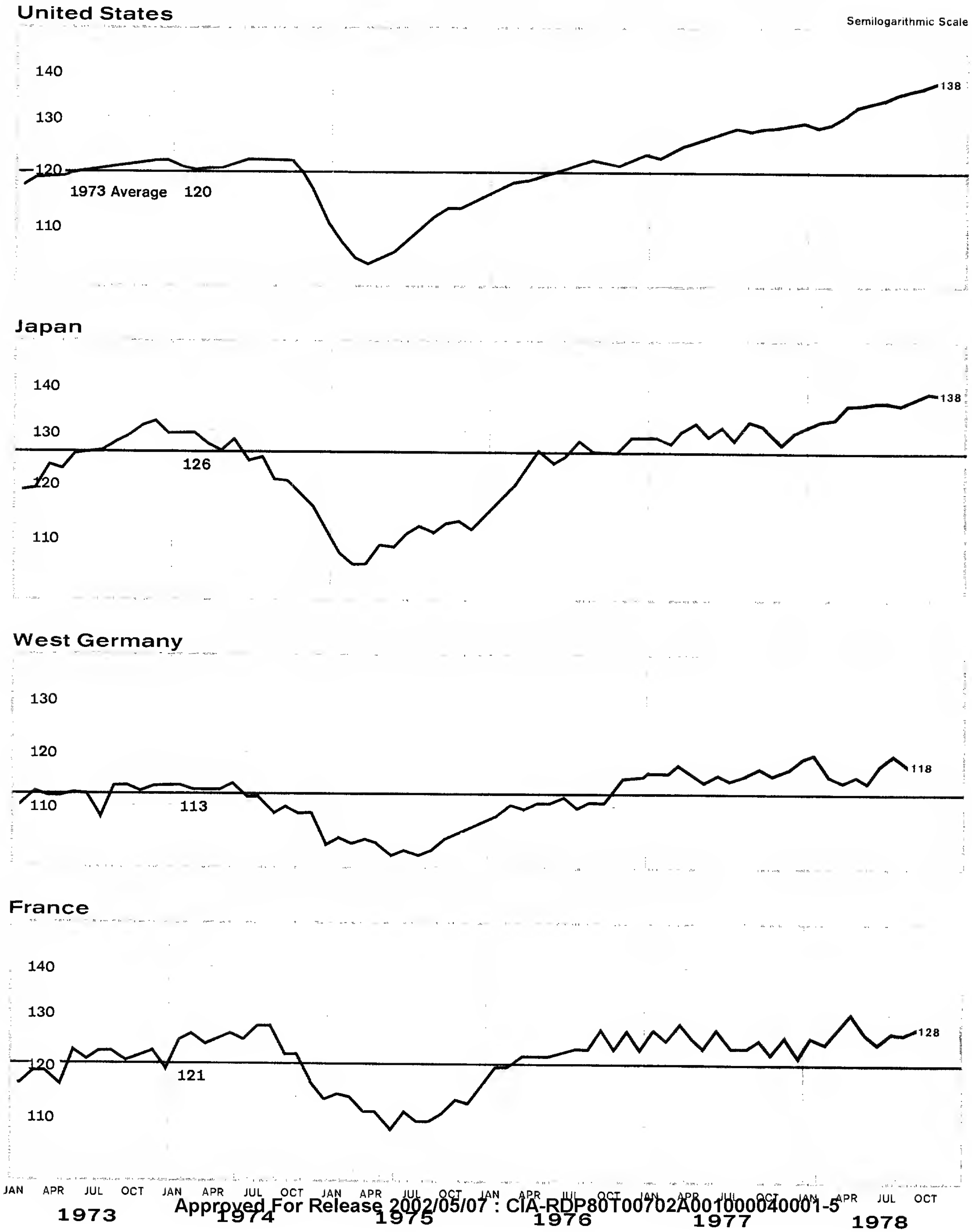
	LATEST MONTH	MILLION US $	CUMULATIVE (MILLION US $) 1978	1977	Change
Trade Balance					
Big Six	AUG 78	5,553	37,151	20,145	17,006
United States	AUG 78	−1,621	−20,976	−16,050	−4,926

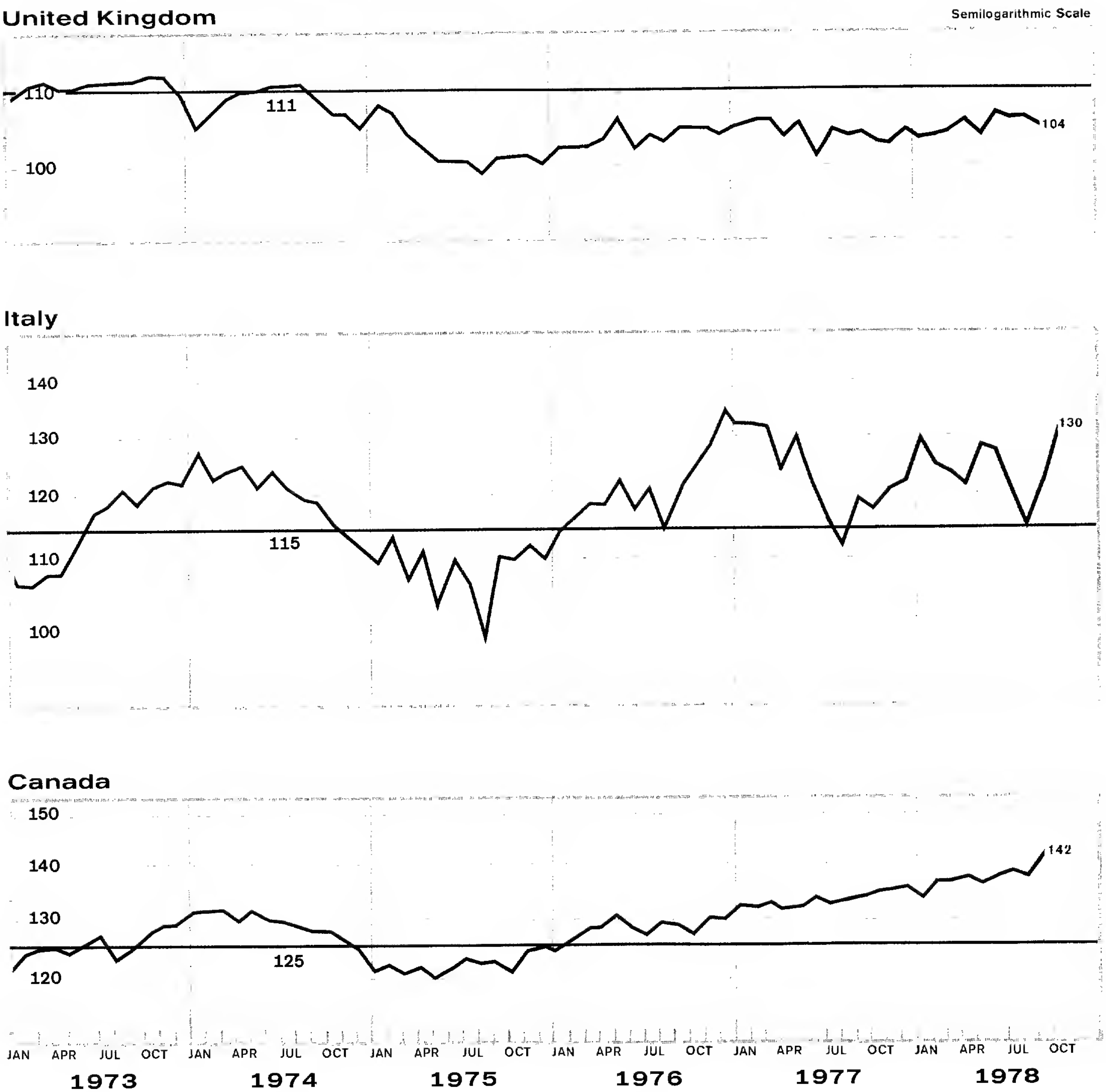
Unclassified
578017 12-78

[2]Average for latest 3 months compared with average for previous 3 months, seasonally adjusted at annual rate.

INDUSTRIAL PRODUCTION

INDEX: 1970=100, seasonally adjusted





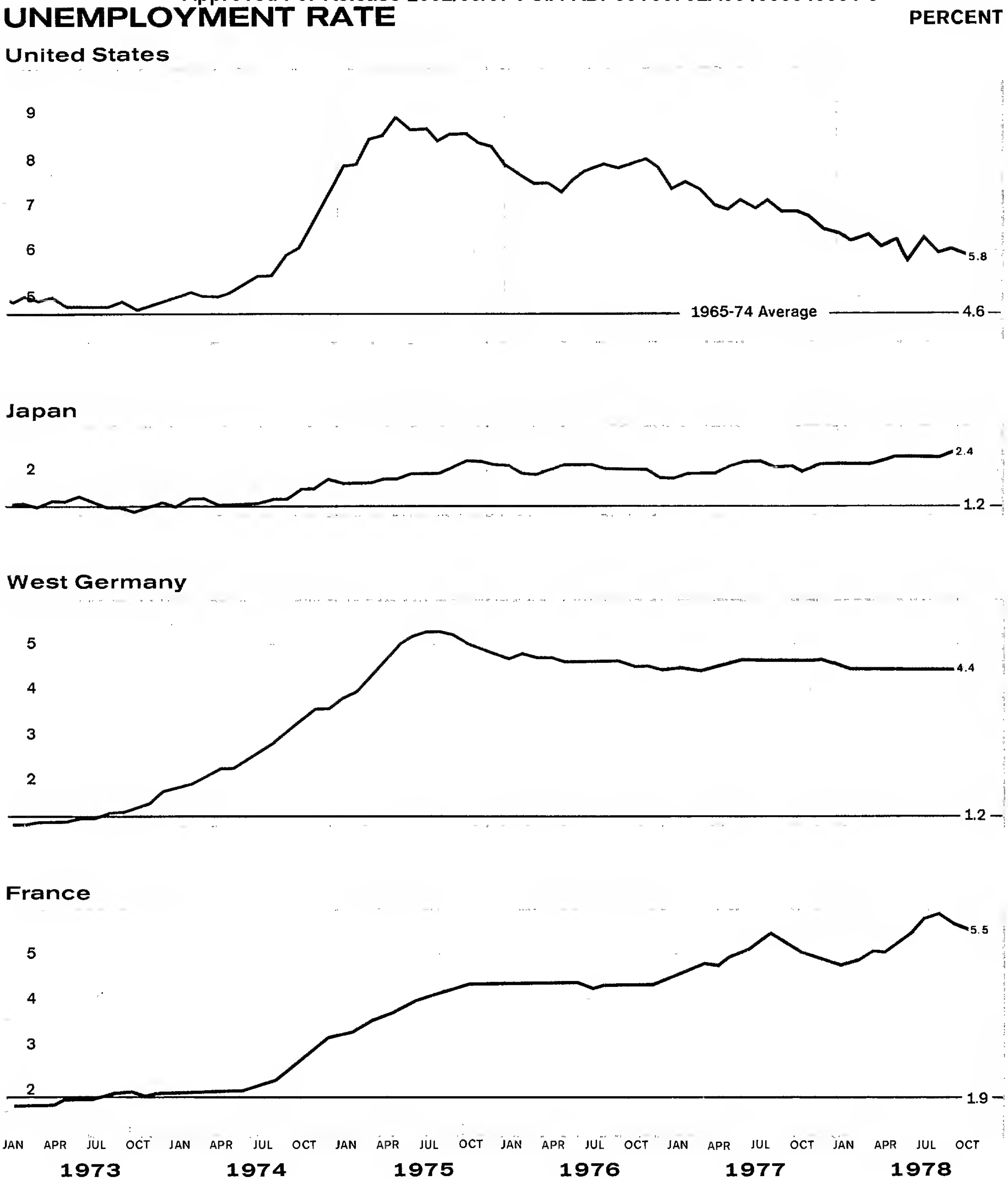
	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[1]
United States	OCT 78	0.5	3.9	6.8	7.8
Japan	OCT 78	−0.2	4.0	8.1	5.2
West Germany	AUG 78	−1.7	2.1	1.7	12.1
France	SEP 78	0.8	3.1	1.6	−1.0

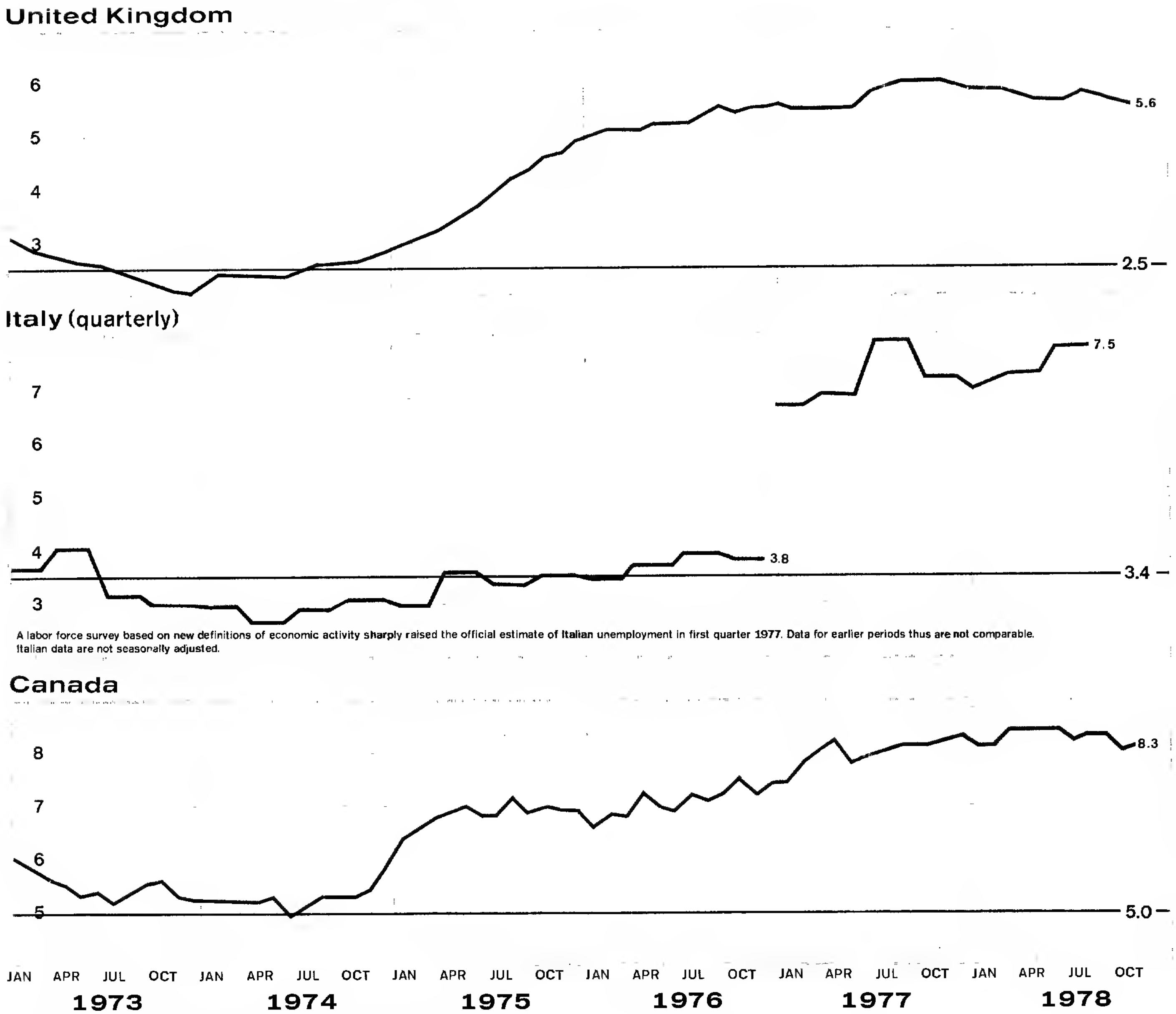
	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[1]
United Kingdom	SEP 78	−1.1	0.5	0.3	1.3
Italy	OCT 78	6.6	3.2	9.9	−10.6
Canada	SEP 78	2.8	4.3	6.3	6.3

Unclassified
578018 12-78

[1]Average for latest 3 months compared with average for previous 3 months.

UNEMPLOYMENT RATE





A labor force survey based on new definitions of economic activity sharply raised the official estimate of Italian unemployment in first quarter 1977. Data for earlier periods thus are not comparable. Italian data are not seasonally adjusted.

THOUSANDS OF PERSONS UNEMPLOYED

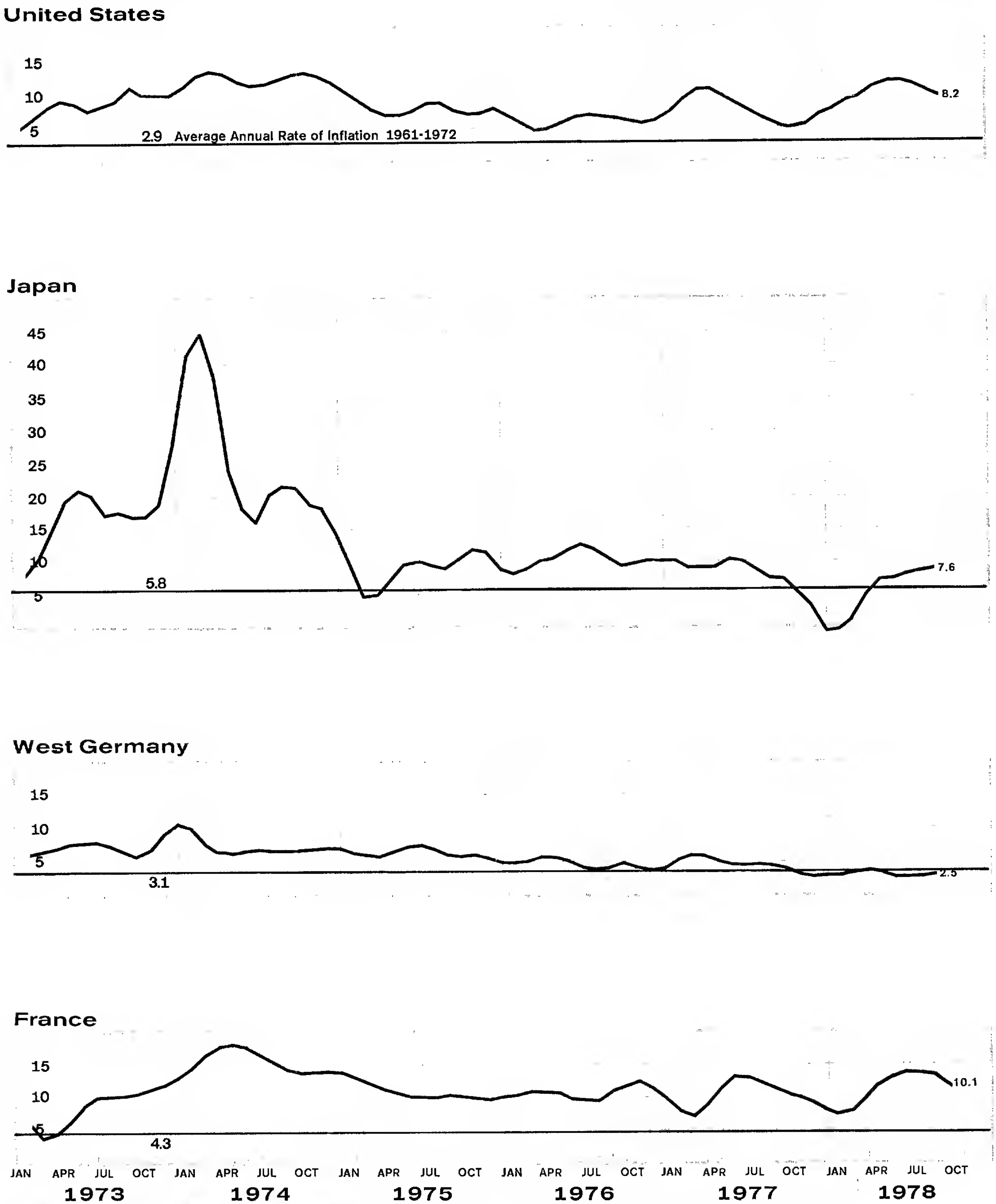
	LATEST MONTH		1 Year Earlier	3 Months Earlier
United States	OCT 78	5,870	6,688	6,193
Japan	SEP 78	1,330	1,120	1,310
West Germany	SEP 78	986	1,035	986
France	OCT 78	1,215	1,097	1,241
United Kingdom	NOV 78	1,339	1,430	1,392
Italy	78 III	1,658	1,692	1,455
Canada	NOV 78	919	903	941

NOTE: Data are seasonally adjusted. Unemployment rates for France are estimated. The rates shown for Japan and Canada are roughly comparable to US rates. For 1975-78, the rates for France and the United Kingdom should be increased by 5 percent and 15 percent respectively, and those for West Germany decreased by 20 percent to be roughly comparable with US rates. Beginning in 1977, Italian rates should be decreased by 50 percent to be roughly comparable to US rates.

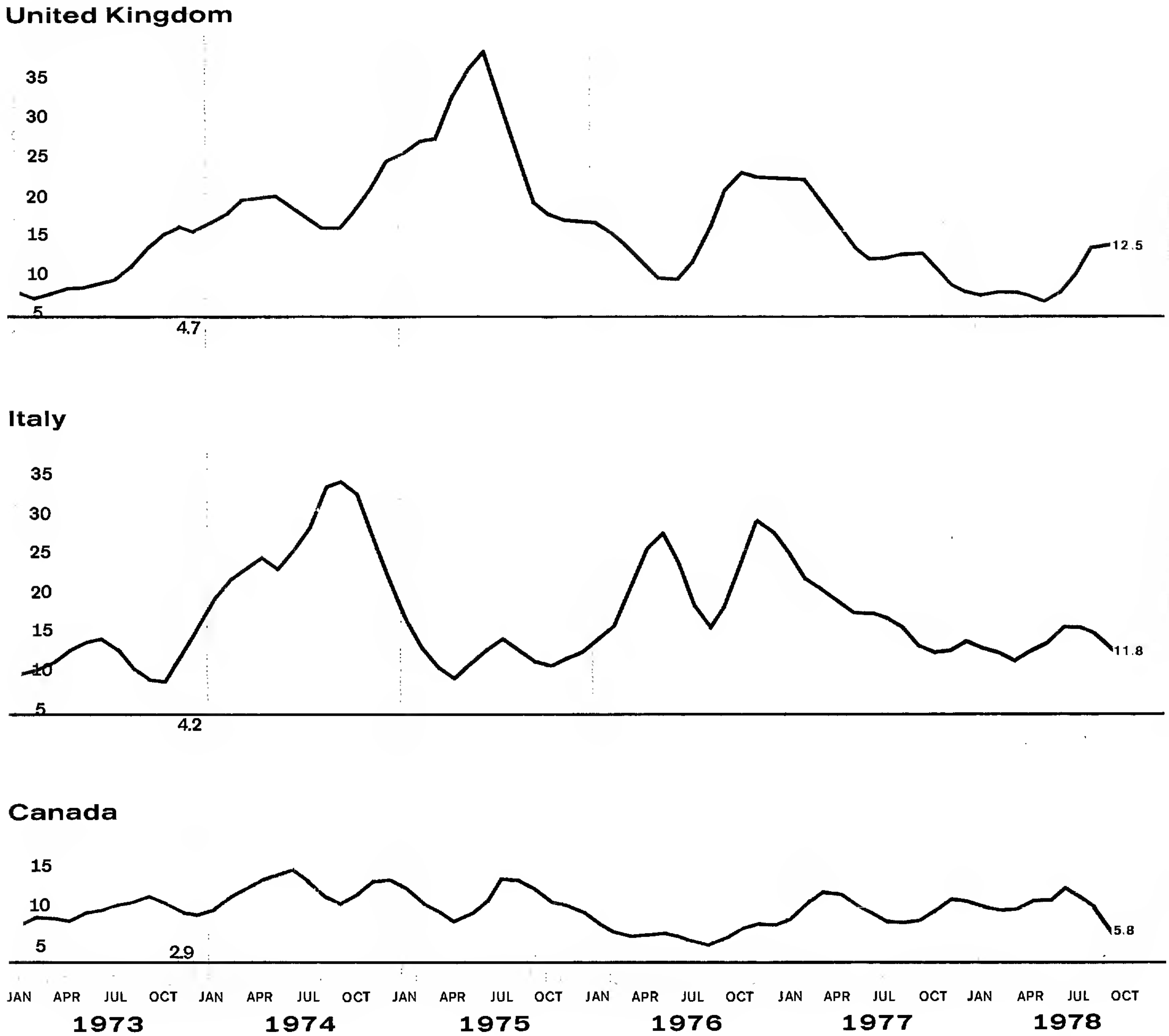
Unclassified
578019 11-78

CONSUMER PRICE INFLATION

Percent, seasonally adjusted, annual rate[1]



[1]Three-month average compared with previous three months.



	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[2]
United States	OCT 78	0.7	6.8	8.9	8.2
Japan	SEP 78	−0.2	9.7	3.7	7.6
West Germany	SEP 78	0	5.1	2.2	2.5
France	OCT 78	0.8	9.1	9.3	10.1

	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[2]
United Kingdom	OCT 78	0.2	13.0	7.8	12.5
Italy	OCT 78	0.9	13.1	12.3	11.8
Canada	OCT 78	1.0	7.7	8.7	5.8

Unclassified
578016 12-78

[2]Average for latest 3 months compared with average for previous 3 months, seasonally adjusted at annual rate.

GNP [1]

Constant Market Prices

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since 1970	Average Annual Growth Rate Since 1 Year Earlier	Average Annual Growth Rate Since Previous Quarter
United States	78 III	0.8	3.2	3.8	3.4
Japan	78 III	1.0	5.3	6.3	3.9
West Germany	78 II	2.1	2.7	4.2	8.8
France	78 I	1.8	4.1	1.4	7.4
United Kingdam	78 I	1.7	1.8	2.3	7.2
Italy	78 I	2.0	2.8	−0.8	8.2
Canada	78 III	0.9	4.6	4.1	3.7

[1] Seasonally adjusted.

RETAIL SALES

Constant Prices

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	Average Annual Growth Rate Since 1 Year Earlier	Average Annual Growth Rate Since 3 Months Earlier [2]
United States	Sep 78	0.8	3.5	4.9	3.6
Japan	Jun 78	1.9	9.3	6.4	11.9
West Germany	Aug 78	0	2.7	2.5	6.6
France	Jan 78	9.9	0	1.0	10.5
United Kingdom	Oct 78	0	1.2	6.6	2.8
Italy	Jul 78	−7.0	2.9	3.0	28.3
Canada	Sep 78	6.3	4.6	7.3	6.3

[1] Seasonally adjusted.

[2] Average for latest 3 months compared with average for previous 3 months.

FIXED INVESTMENT [1]

Nonresidential; constant prices

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since 1970	Average Annual Growth Rate Since 1 Year Earlier	Average Annual Growth Rate Since Previous Quarter
United States	78 III	1.0	3.2	8.5	4.0
Japan	78 III	1.8	1.8	8.3	7.2
West Germany	78 II	−0.5	1.2	7.8	−2.0
France	77 IV	0.8	4.0	4.7	3.3
United Kingdam	78 I	2.8	1.8	11.3	11.6
Italy	78 I	2.3	1.1	−19.6	9.4
Canada	78 III	3.2	6.5	5.9	13.6

[1] Seasonally adjusted.

WAGES IN MANUFACTURING [1]

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since 1970	Average Annual Growth Rate Since 1 Year Earlier	Average Annual Growth Rate Since 3 Months Earlier [2]
United States	Jul 78	1.2	7.6	7.6	6.8
Japan	Aug 78	0	15.4	4.8	2.8
West Germany	78 II	1.7	8.8	4.2	7.1
France	77 IV	3.1	14.1	12.0	12.9
United Kingdam	Jun 78	0.1	16.3	20.5	84.0
Italy	Aug 78	4.0	20.2	14.7	15.6
Canada	Sep 78	1.2	10.8	6.7	10.7

[1] Hourly earnings (seasonally adjusted) for the United States, Japan, and Canada; hourly wage rates for others. West German and French data refer to the beginning of the quarter

[2] Average for latest 3 months compared with that for previous 3 months.

MONEY MARKET RATES

	Representative rates	Latest Date	Percent Rate of Interest: Latest	1 Year Earlier	3 Months Earlier	1 Month Earlier
United States	Commercial paper	Dec 6	10.25	6.54	8.30	10.01
Japan	Call money	Dec 8	4.50	5.00	4.13	3.75
West Germany	Interbank loans (3 months)	Dec 6	3.87	4.21	3.63	3.83
France	Call money	Dec 8	6.63	9.38	7.38	7.00
United Kingdom	Sterling interbank loans (3 months)	Dec 6	12.13	6.96	9.24	11.54
Canada	Finance paper	Dec 6	10.36	7.37	8.96	10.31
Eurodollars	Three-month deposits	Dec 6	11.56	6.99	8.85	11.44

Approved For Release 2002/05/07 : CIA-RDP80T00702A001000040001-5

EXPORT PRICES

US $

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Aug 78	1.3	9.7	11.0	19.5
Japan	Sep 78	−1.0	11.7	31.3	12.8
West Germany	Aug 78	1.7	11.7	14.3	23.3
France	Jul 78	4.2	11.9	16.5	16.5
United Kingdom	Oct 78	2.8	12.5	22.2	36.3
Italy	Aug 78	2.6	11.4	10.9	28.2
Canada	Sep 78	−4.7	8.0	0	−1.2

EXPORT PRICES

Notional Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Aug 78	1.3	9.7	11.0	19.5
Japan	Sep 78	−0.2	3.3	−6.6	−30.5
West Germany	Aug 78	−1.2	3.7	−1.5	−0.3
France	Jul 78	1.0	8.9	6.6	2.2
United Kingdom	Oct 78	0.3	14.9	7.7	8.2
Italy	Aug 78	2.6	15.4	5.2	9.5
Canada	Sep 78	−2.5	9.4	8.6	17.0

IMPORT PRICES

National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Aug 78	0.6	12.7	7.9	3.3
Japan	Sep 78	−0.4	5.0	−23.7	−37.8
West Germany	Aug 78	0.4	3.4	−3.4	7.6
France	Jul 78	−2.3	8.7	−2.1	−9.0
United Kingdom	Oct 78	0.5	17.0	4.1	5.2
Italy	Aug 78	0.8	18.4	1.8	1.3
Canada	Sep 78	−0.9	9.6	13.1	13.8

OFFICIAL RESERVES

	Latest Month: End of	Latest Month: Billion US $	Billion US $: Jun 1970	1 Year Earlier	3 Months Earlier
United States	Sep 78	18.8	14.5	19.0	18.9
Japan	Aug 78	29.2	4.1	17.8	27.7
West Germany	Sep 78	44.7	8.8	34.5	40.7
France	Apr 78	10.6	4.4	10.0	10.2
United Kingdom	Sep 78	17.6	2.8	17.3	17.3
Italy	Oct 78	14.1	4.7	11.1	13.5
Canada	Nov 78	4.5	9.1	4.2	4.2

CURRENT ACCOUNT BALANCE [1]

	Latest Period	Million US $	Cumulative (Million US $) 1978	1977	Change
United States [2]	78 II	−3,261	−10,119	−8,762	−1,357
Japan	Sep 78	1,900	13,982	6,442	7,540
West Germany	Aug 78	10	2,725	788	1,937
France	78 I	−84	−84	−1,628	1,543
United Kingdom	78 I	−803	−803	−896	94
Italy	78 I	288	288	−1,025	1,313
Canada	78 II	−1,201	−2,381	−2,658	277

[1] Converted to US dollars at the current market rates of exchange.
[2] Seasonally adjusted.

BASIC BALANCE [1]

Current and Long-Term Capital Transactions

	Latest Period	Million US $	Cumulative (Million US $) 1978	1977	Change
United States		No longer published [2]			
Japan	Sep 78	600	6,746	4,390	2,356
West Germany	Aug 78	−75	1,730	−3,308	5,038
France	78 I	−863	−863	−1,889	1,025
United Kingdom	78 I	−326	−326	543	−869
Italy	77 III	2,427	N.A.	N.A.	N.A.
Canada	78 II	883	327	−482	809

[1] Converted to US dollars at the current market rates of exchange.
[2] As recommended by the Advisory Committee on the Presentation of Balance of Payments Statistics, the Department of Commerce no longer publishes a basic balance.

EXCHANGE RATES

Spot Rate

As of 1 Dec 78

	US $ Per Unit	Percent Change from 19 Mar 73	1 Year Earlier	3 Months Earlier	24 Nov 78
Japan (yen)	0.0050	31.81	21.98	−4.17	1.47
West Germany (Deutsche mark)	0.5229	47.09	15.34	3.32	1.10
France (franc)	0.2277	2.59	10.25	−0.40	1.09
United Kingdom (pound sterling)	1.9600	−20.72	7.69	−0.04	1.11
Italy (lira)	0.0012	−32.91	3.51	−1.75	0.68
Canada (dollar)	0.8500	−15.28	−5.78	−1.13	−0.67

TRADE-WEIGHTED EXCHANGE RATES [1]

As of 1 Dec 78

	Percent Change from 19 Mar 73	1 Year Earlier	3 Months Earlier	24 Nov 78
United States	−1.89	−5.93	0.92	−0.45
Japan	35.57	19.56	−4.02	1.24
West Germany	35.04	4.63	2.81	0.19
France	−10.92	−1.09	−1.62	0.16
United Kingdom	−28.73	−1.10	−0.65	0.38
Italy	−43.65	−6.87	−2.74	−0.24
Canada	−16.44	−8.17	−0.96	−0.90

[1] Weighting is based on each listed country's trade with 16 other industrialized countries to reflect the competitive impact of exchange rate variations among the major currencies.

Developed Countries: Direction of Trade[1]

Billion US $

	Exports to (f.o.b.)					
	World	Big Seven	Other OECD	OPEC	Com-munist	Other
UNITED STATES						
1975	107.59	46.93	16.25	10.77	3.37	30.27
1976	115.01	51.30	17.67	12.57	3.64	29.82
1977	120.17	53.92	18.54	14.02	2.72	30.97
1978						
1st Qtr	30.96	13.65	4.60	3.76	1.00	7.95
2d Qtr	37.05	16.14	5.25	4.43	1.44	9.79
Jul	10.94	4.51	1.51	1.38	0.40	3.14
Aug	11.61	4.95	1.65	1.32	0.37	3.33
JAPAN						
1975	55.73	16.56	6.07	8.42	5.17	19.52
1976	67.32	22.61	8.59	9.27	4.94	21.91
1977	81.12	28.03	9.72	12.03	5.33	26.01
1978						
1st Qtr	22.11	7.79	2.43	3.35	1.32	7.22
2d Qtr	24.07	8.60	2.44	3.55	1.74	7.74
Jul	8.58	2.99	1.02	1.33	0.51	2.73
Aug	8.18	2.94	0.86	1.19	0.58	2.60
WEST GERMANY						
1975	90.11	28.33	36.44	6.78	7.21	11.33
1976	101.93	33.44	41.86	8.25	7.02	11.36
1977	118.01	39.00	48.01	10.78	7.30	12.92
1978						
1st Qtr	32.45	11.17	13.05	2.76	1.97	3.49
2d Qtr	34.69	11.94	13.71	3.01	2.26	3.77
Jul	10.42	3.64	3.93	1.01	0.65	1.18
Aug	10.99	3.38	4.57	1.01	0.71	1.32
FRANCE						
1975	53.03	20.01	15.50	4.90	3.13	9.50
1976	57.05	22.49	16.15	5.08	3.23	10.10
1977	64.86	25.90	18.18	5.96	2.99	11.82
1978						
1st Qtr	18.49	7.66	5.07	1.57	0.66	3.53
2d Qtr	20.36	8.31	5.60	1.70	0.84	3.91
Jul	6.66	2.78	1.72	0.59	0.27	1.29
Aug	4.86	1.92	1.25	0.46	0.24	1.00
UNITED KINGDOM						
1975	44.46	12.54	16.59	4.55	1.56	9.21
1976	46.56	14.03	17.53	5.13	1.39	8.48
1977	58.04	17.29	22.20	6.77	1.63	10.14
1978						
1st Qtr	16.86	5.09	6.27	2.03	0.55	2.92
2d Qtr	17.60	5.38	6.59	2.20	0.51	2.92
Jul	5.80	1.84	2.10	0.71	0.16	1.00
Aug	5.77	1.73	2.18	0.69	0.15	1.02
ITALY						
1975	34.84	15.61	7.86	3.72	2.46	5.19
1976	37.25	17.58	8.73	4.27	2.18	4.48
1977	45.04	20.91	10.20	5.84	2.46	5.64
1978						
1st Qtr	10.80	5.22	2.40	1.37	0.48	1.33
2d Qtr	13.65	6.51	2.92	1.81	0.66	1.75
Jul	4.46	2.17	0.93	0.57	0.22	0.57
CANADA						
1975	34.07	26.30	1.72	0.71	1.20	4.14
1976	40.52	32.01	2.03	0.81	1.25	4.40
1977	43.08	34.83	2.20	1.17	1.08	3.80
1978						
1st Qtr	10.87	8.88	0.45	0.23	0.22	1.10
2d Qtr	12.66	10.32	0.56	0.23	0.36	1.19
Jul	3.53	2.81	0.13	0.08	0.15	0.36

25X1X

Developed Countries: Direction of Trade [1]

Billion US $

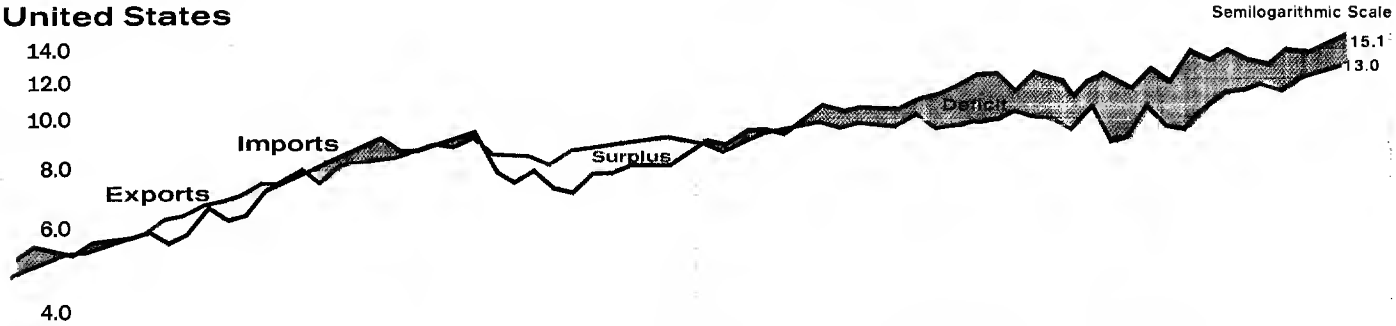
	Imports from (c.i.f.)					
	World	Big Seven	Other OECD	OPEC	Communist	Other
UNITED STATES						
1975	103.42	49.81	8.83	18.70	0.98	25.09
1976	129.57	60.39	9.75	27.17	1.16	31.10
1977	156.71	70.48	11.09	35.45	1.23	38.47
1978						
1st Qtr	43.14	20.39	3.51	8.15	0.47	10.62
2d Qtr	45.99	22.53	3.68	7.90	0.48	11.40
Jul	15.67	7.56	1.29	2.62	0.14	4.04
Aug	14.96	6.92	1.11	2.91	0.19	3.83
JAPAN						
1975	57.85	16.93	6.08	19.40	3.36	12.07
1976	64.89	17.58	7.78	21.88	2.91	14.73
1977	71.32	18.88	7.92	24.33	3.41	16.79
1978						
1st Qtr	18.32	5.04	2.06	6.46	0.86	3.89
2d Qtr	19.39	5.51	2.30	5.95	1.01	4.63
Jul	6.47	1.95	0.80	1.82	0.30	1.60
Aug	6.92	2.17	0.81	1.92	0.32	1.70
WEST GERMANY						
1975	74.92	27.09	27.78	8.24	3.51	8.30
1976	88.14	31.28	32.64	9.73	4.38	10.11
1977	101.42	36.39	37.37	10.12	4.92	12.61
1978						
1st Qtr	28.24	10.11	10.88	2.32	1.39	3.55
2d Qtr	29.75	11.10	11.43	2.24	1.40	3.58
Jul	9.57	3.60	3.48	0.77	0.54	1.18
Aug	9.43	3.41	3.51	0.82	0.50	1.19
FRANCE						
1975	53.99	23.04	14.33	9.43	1.94	5.24
1976	64.38	27.81	16.93	11.36	2.24	6.04
1977	70.49	30.28	18.24	11.81	2.46	7.69
1978						
1st Qtr	19.76	8.58	5.40	3.05	0.64	2.09
2d Qtr	20.42	9.16	5.62	2.77	0.68	2.19
Jul	6.31	2.88	1.65	0.94	0.23	0.61
Aug	5.56	2.49	1.29	0.95	0.21	0.63
UNITED KINGDOM						
1975	53.93	18.47	18.52	6.91	1.68	8.36
1976	56.20	19.65	18.81	7.29	2.08	8.36
1977	64.06	24.03	21.38	6.32	2.42	9.91
1978						
1st Qtr	18.87	7.44	6.68	1.80	0.55	2.40
2d Qtr	19.31	7.66	7.27	1.30	0.59	2.48
Jul	6.42	2.58	2.17	0.58	0.21	0.88
Aug	6.30	2.48	2.08	0.60	0.23	0.91
ITALY						
1975	38.39	17.32	6.75	7.85	2.09	4.39
1976	43.43	19.35	8.05	8.12	2.65	5.26
1977	47.57	20.80	8.66	9.03	2.80	6.28
1978						
1st Qtr	11.26	5.03	2.10	2.18	0.51	1.44
2d Qtr	13.38	6.14	2.58	2.15	0.73	1.76
Jul	4.90	2.18	0.93	0.82	0.37	0.61
CANADA						
1975	38.67	29.78	1.70	3.43	0.32	3.43
1976	43.04	33.55	1.82	3.48	0.38	3.81
1977	44.91	35.75	1.79	3.06	0.34	3.98
1978						
1st Qtr	10.80	8.60	0.44	0.77	0.08	0.91
2d Qtr	13.52	11.08	0.50	0.71	0.09	1.13
Jul	3.88	3.05	0.17	0.26	0.04	0.35

25X1X

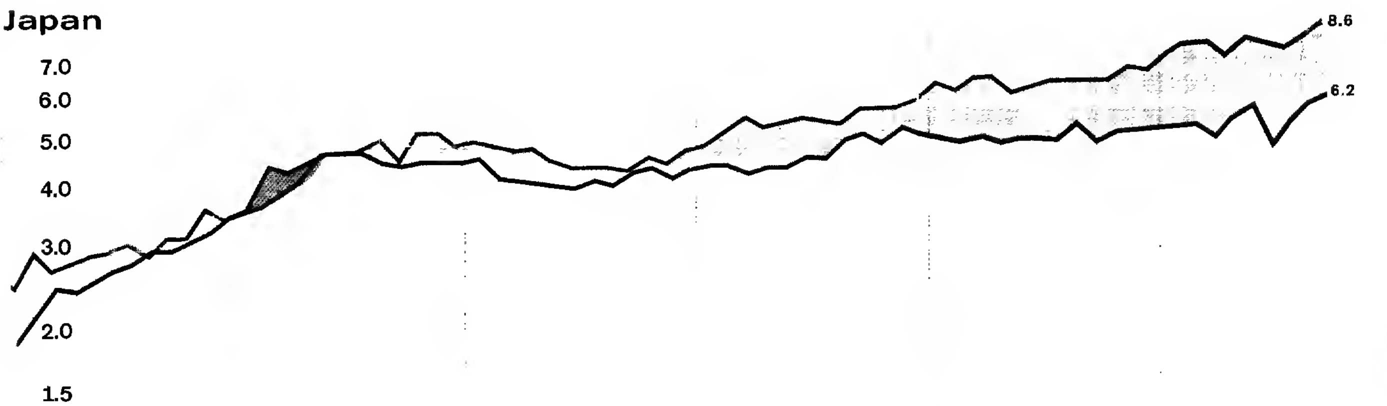
Unclassified

FOREIGN TRADE BILLION US $, f.o.b., seasonally adjusted

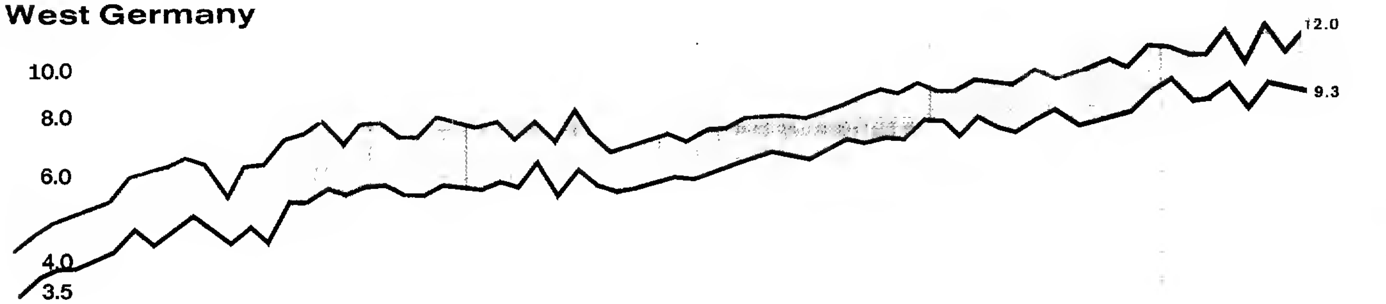
United States



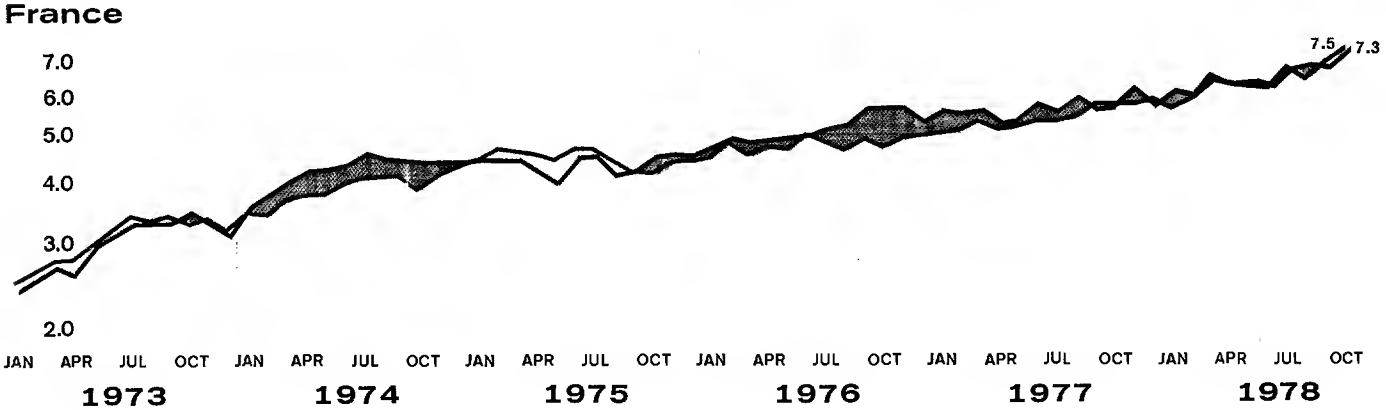
Japan

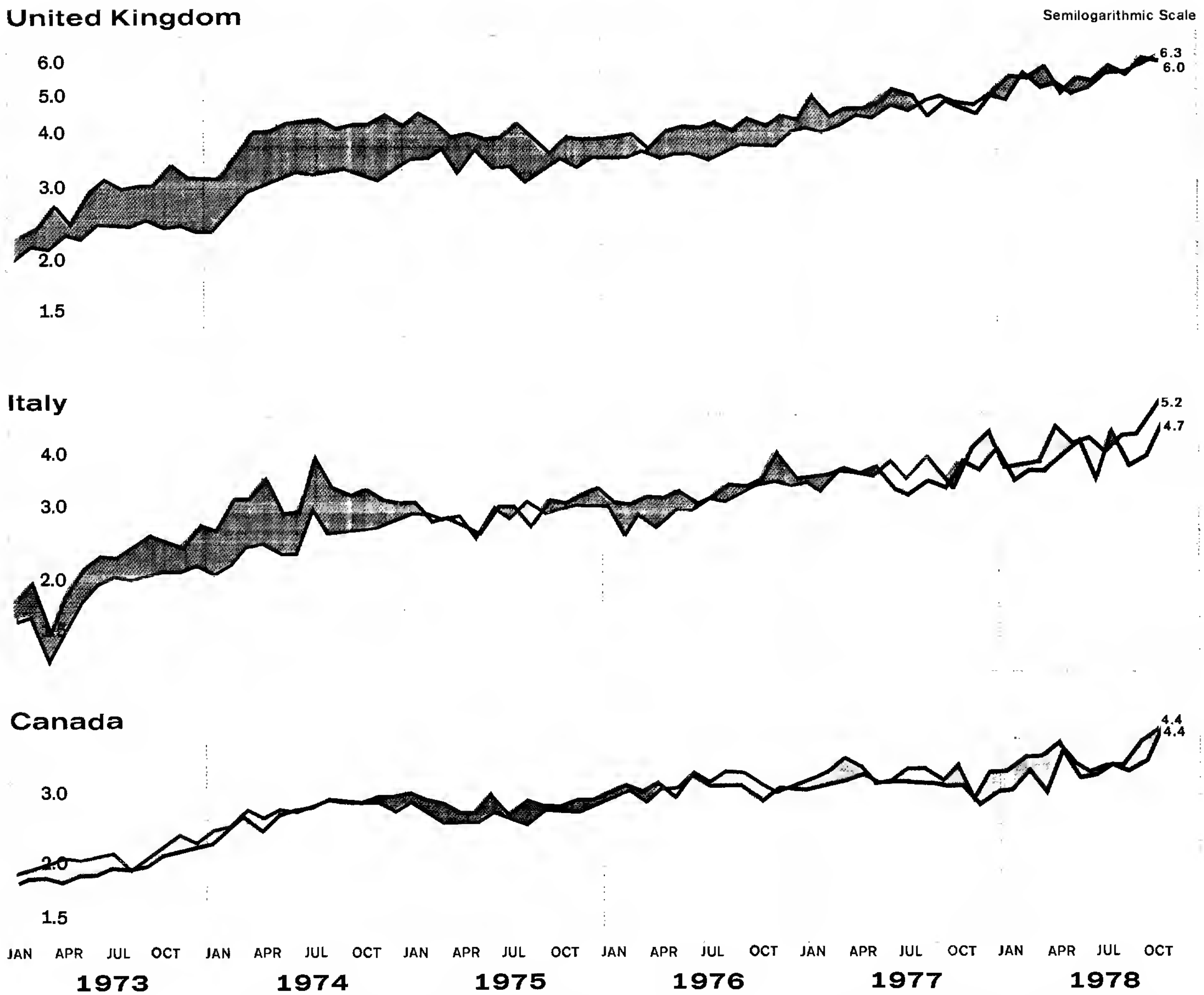


West Germany



France



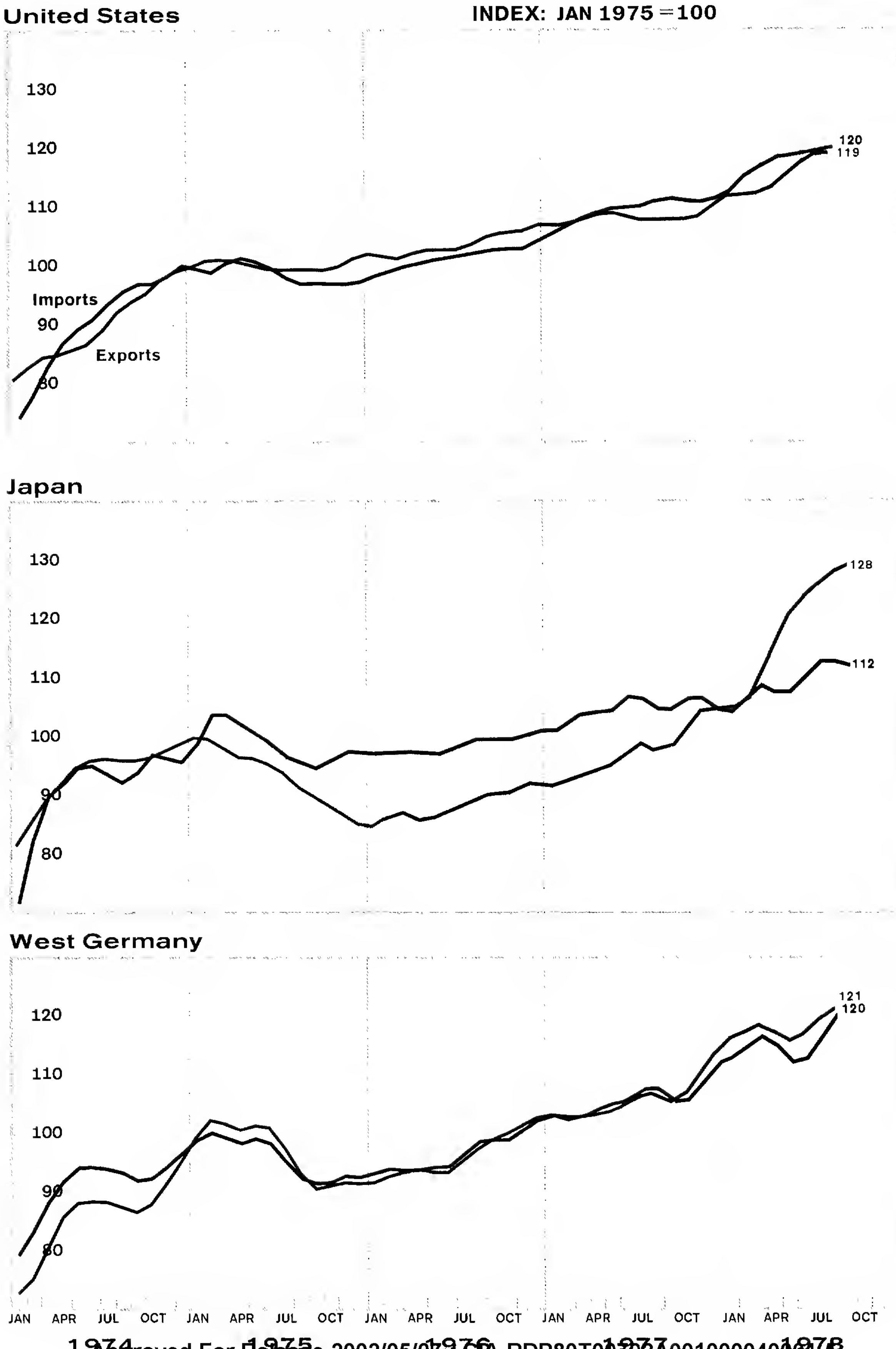


	LATEST MONTH	MILLION US $	CUMULATIVE (MILLION US $) 1978	1977	CHANGE
United States	OCT 78	13,011 15,138	117,064 141,859	100,727 121,889	16.2% 16.4%
	Balance	−2,128	−24,795	−21,162	−3,633
Japan	SEP 78	8,618 6,216	71,117 50,210	58,515 46,130	21.5% 8.8%
	Balance	2,402	20,907	12,385	8,522
West Germany	AUG 78	11,974 9,258	90,233 74,131	76,223 62,846	18.4% 18.0%
	Balance	2,715	16,102	13,378	2,725
France	OCT 78	7,483 7,311	65,411 64,823	53,441 55,628	22.4% 16.5%
	Balance	171	589	−2,187	2,776

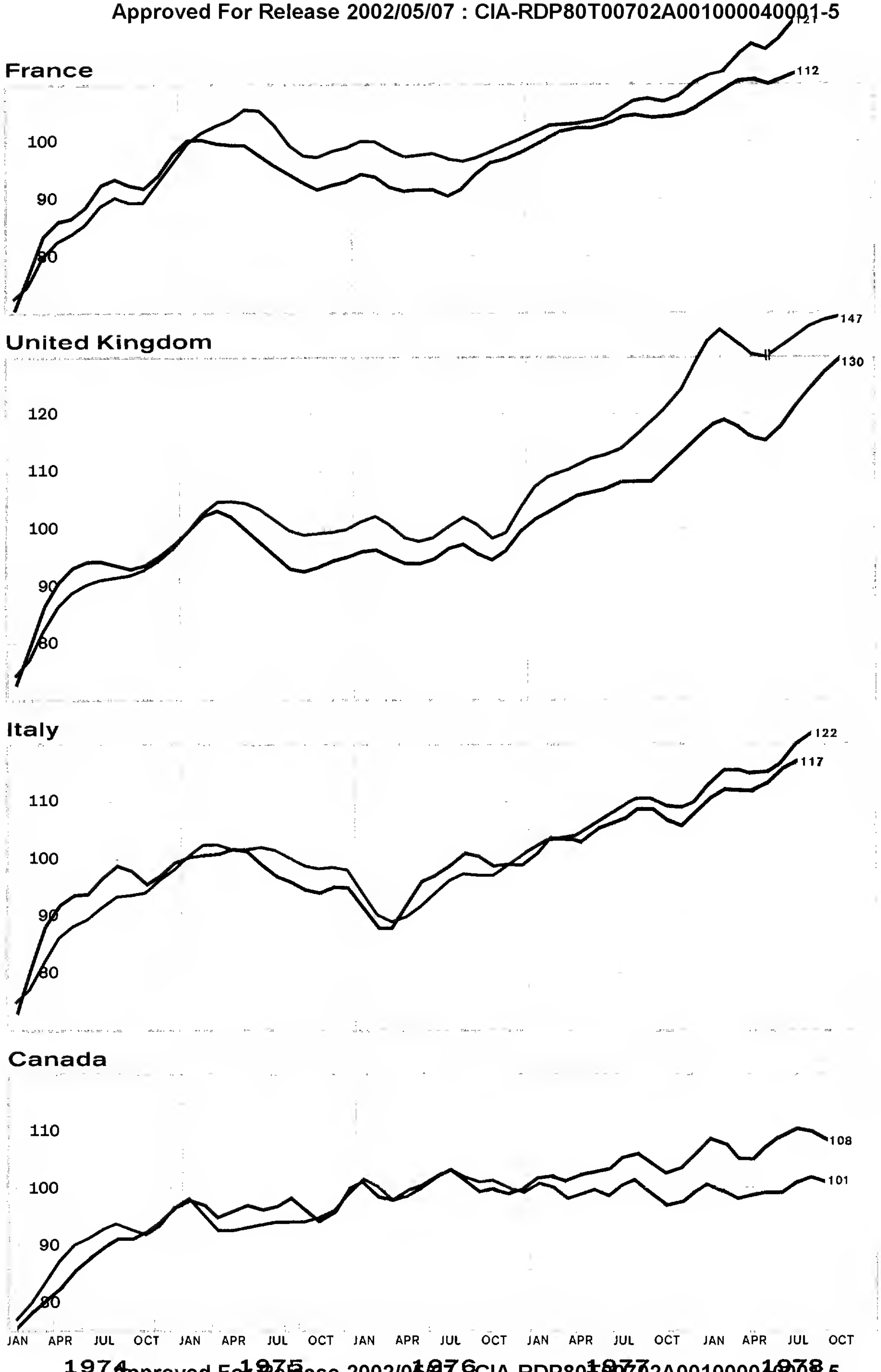
	LATEST MONTH	MILLION US $	CUMULATIVE (MILLION US $) 1978	1977	CHANGE
United Kingdom	OCT 78	6,264 6,025	56,265 57,957	46,177 49,019	21.8% 18.2%
	Balance	239	−1,692	−2,842	1,149
Italy	OCT 78	5,162 4,746	43,005 39,996	36,261 36,231	18.6% 10.4%
	Balance	416	3,009	30	2,979
Canada	OCT 78	4,398 4,439	38,533 36,329	34,870 33,228	10.5% 9.3%
	Balance	−41	2,204	1,642	562

Unclassified
578020 12-78

FOREIGN TRADE PRICES IN US $[1]



[1] Export and import plots are based on five-month weighted moving averages.



Approved For Release 2002/05/07 : CIA-RDP80T00702A001000040001-5

Unclassified

577971 12-78

SELECTED DEVELOPING COUNTRIES

INDUSTRIAL PRODUCTION [1]

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier [2]
India	Jun 78	−1.8	5.1	5.4	18.2
South Korea	Aug 78	6.4	22.8	23.1	12.8
Mexico	Jun 78	0	6.2	8.5	27.7
Nigeria	78 I	6.8	11.4	0.5	30.0
Taiwan	Aug 78	3.0	16.3	31.0	42.1

[1] Seasonally adjusted.

[2] Average for latest 3 months compared with average for previous 3 months.

MONEY SUPPLY [1]

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier [2]
Brazil	Mar 78	2.7	36.4	43.3	34.7
India	Apr 78	2.5	14.0	16.3	13.1
Iran	Jul 78	0	28.2	26.7	17.9
South Korea	Sep 78	−5.8	30.0	17.7	10.3
Mexico	Jul 78	1.9	21.0	37.3	36.4
Nigeria	May 78	−2.4	33.5	9.3	14.8
Taiwan	May 78	0.6	25.1	32.8	40.8
Thailand	Apr 78	−3.2	13.3	12.5	32.3

[1] Seasonally adjusted.

[2] Average for latest 3 months compared with average for previous 3 months.

CONSUMER PRICES

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier
Brazil	Jun 78	4.1	28.3	38.0
India	Jun 78	1.2	7.5	2.2
Iran	Aug 78	−0.4	11.8	7.8
South Korea	Oct 78	0.9	14.6	16.8
Mexico	Aug 78	1.0	15.1	17.0
Nigeria	Dec 77	3.1	16.6	31.3
Taiwan	Aug 78	1.9	9.8	−0.6
Thailand	Jun 78	0.9	8.7	8.4

WHOLESALE PRICES

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier
Brazil	May 78	3.4	28.4	34.5
India	May 78	0.6	8.0	−2.8
Iran	Aug 78	−1.3	10.0	7.8
South Korea	Oct 78	1.1	15.7	13.1
Mexico	Aug 78	−0.2	16.3	13.8
Taiwan	Aug 78	0.4	8.1	1.6
Thailand	Mar 78	−0.1	9.4	5.8

EXPORT PRICES
US $

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier
Brazil	Feb 78	0.4	14.0	1.5
India	Sep 77	−2.7	10.0	18.4
South Korea	78 II	2.4	8.8	8.9
Taiwan	Jun 78	1.9	11.3	3.3
Thailand	Dec 77	0.1	10.2	−7.8

OFFICIAL RESERVES

	Latest Month		Million US $		
	End of	Million US $	Jun 1970	1 Year Earlier	3 Months Earlier
Brazil	Feb 78	6,733	1,013	5,878	5,994
India	Jul 78	6,117	1,006	4,395	6,064
Iran	Oct 78	11,951	208	11,546	11,982
South Korea	Sep 78	4,354	602	4,040	4,199
Mexico	Mar 78	1,766	695	1,422	1,723
Nigeria	Sep 78	1,558	148	4,597	2,387
Taiwan	Jun 78	1,462	531	1,411	1,433
Thailand	Sep 78	2,269	978	1,925	2,161

FOREIGN TRADE, f.o.b.

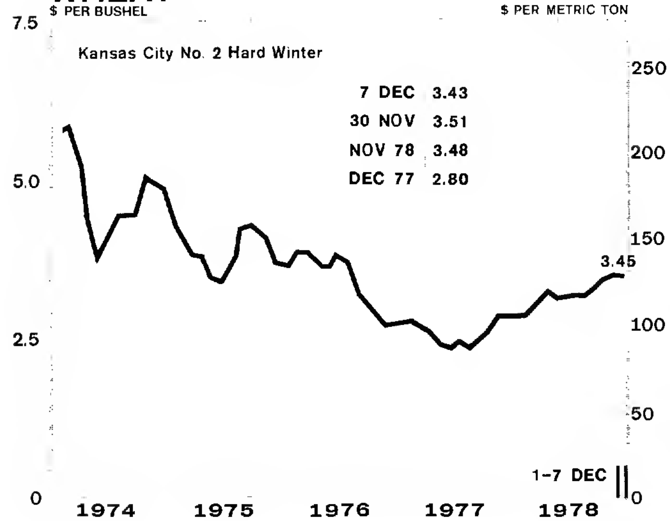
	Latest Period		Latest 3 Months Percent Change from: 3 Months Earlier [1]	Latest 3 Months Percent Change from: 1 Year Earlier	Cumulative (Million US $): 1978	Cumulative (Million US $): 1977	Cumulative (Million US $): Change
Brazil	May 78	Exports	84.8	−3.7	4,743	4,979	−4.7%
	May 78	Imports	26.6	1.4	5,110	4,939	3.5%
	May 78	Balance			−367	40	−407
India	Mar 78	Exports	−19.6	−13.5	1,476	1,707	−13.5%
	Mar 78	Imports	−24.1	9.7	1,444	1,316	9.7%
	Mar 78	Balance			32	391	−358
Iran	Aug 78	Exports	2.9	10.4	15,868	15,635	1.5%
	May 78	Imports	−1.6	1.6	5,705	5,259	8.5%
	May 78	Balance			4,087	4,871	−783
South Korea	Aug 78	Exports	12.6	21.6	7,798	6,217	25.4%
	Aug 78	Imports	52.3	33.7	8,561	6,574	30.2%
	Aug 78	Balance			−764	−357	−407
Mexico	Jul 78	Exports	78.8	29.8	2,867	2,453	16.9%
	Jul 78	Imports	225.3	41.9	3,596	2,751	30.7%
	Jul 78	Balance			−728	−298	−430
Nigeria	78 II	Exports	86.7	−26.0	1,808	2,526	−28.4%
	78 I	Imports	579.5	115.0	1,808	841	115.0%
	78 I	Balance			−974	368	−1,342
Taiwan	Aug 78	Exports	84.2	38.7	8,044	5,884	36.7%
	Aug 78	Imports	68.9	32.5	6,439	5,119	25.8%
	Aug 78	Balance			1,605	765	840
Thailand	Jul 78	Exports	7.1	10.4	2,246	2,099	7.0%
	Jul 78	Imports	51.5	13.8	2,697	2,330	15.7%
	Jul 78	Balance			−450	−231	−219

[1] At annual rates.

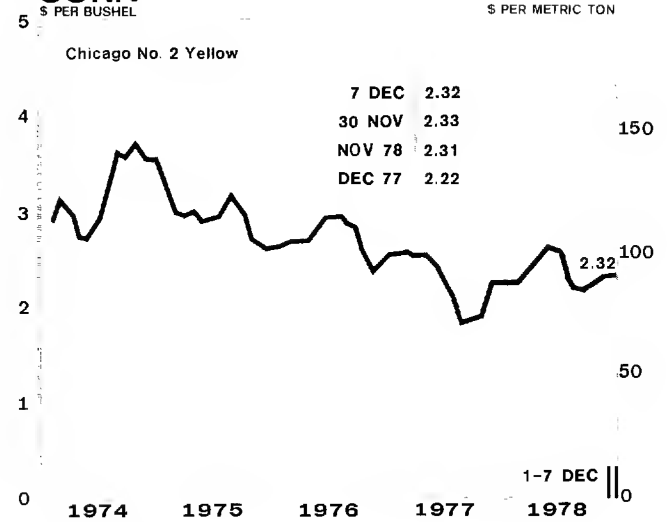
  Unclassified

AGRICULTURAL PRICES MONTHLY AVERAGE CASH PRICE

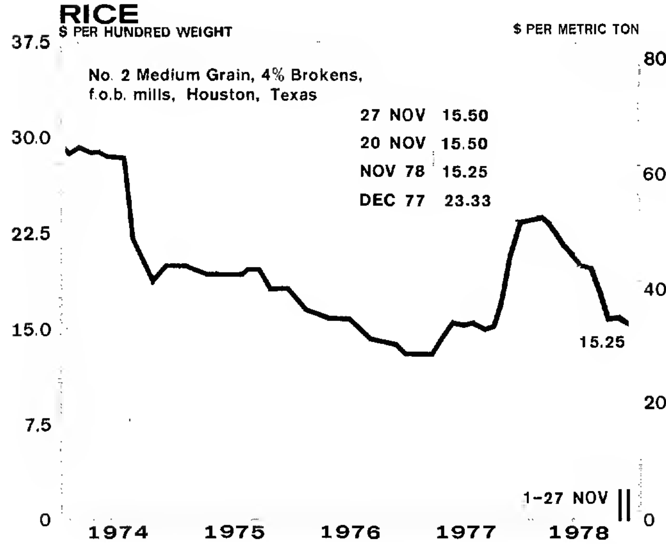
WHEAT



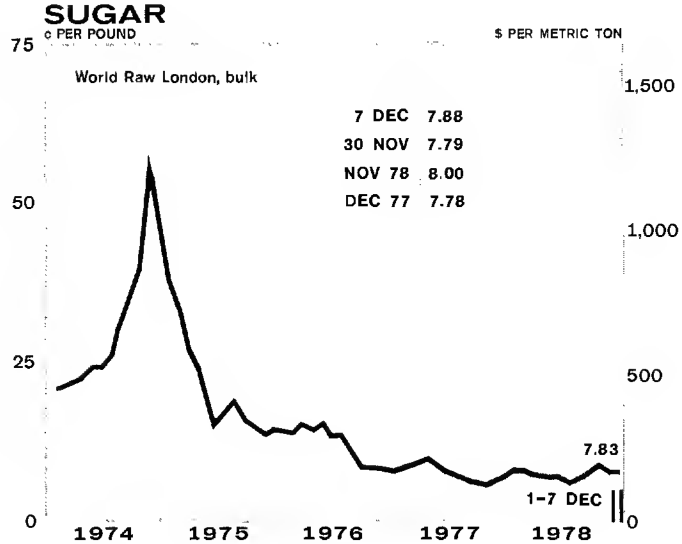
CORN



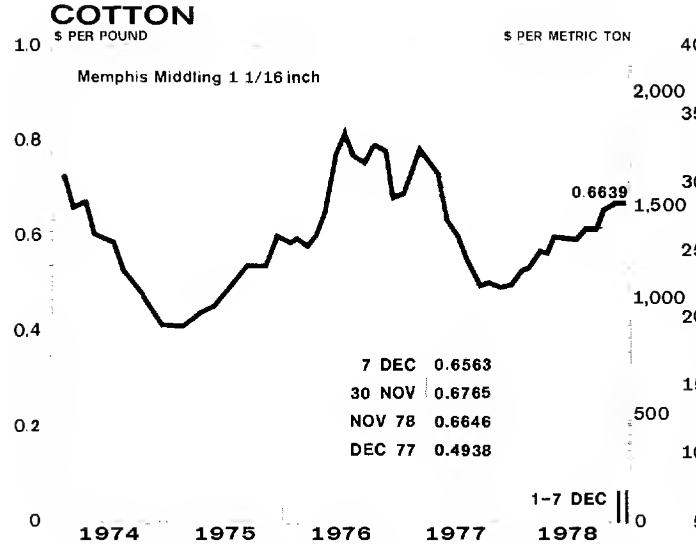
RICE



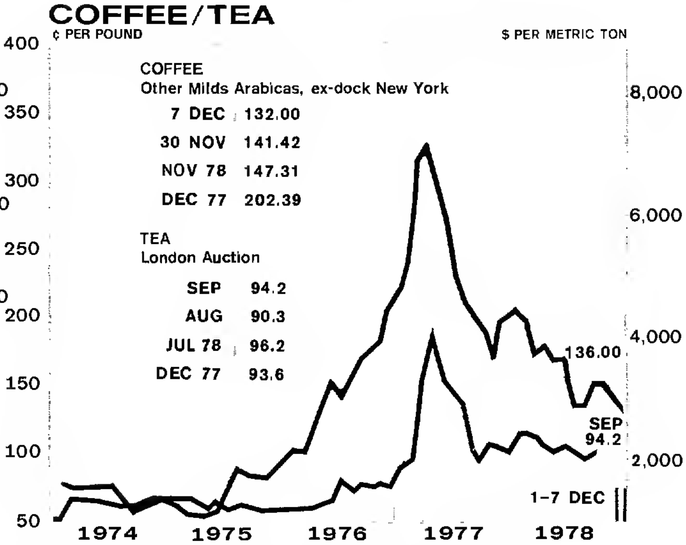
SUGAR



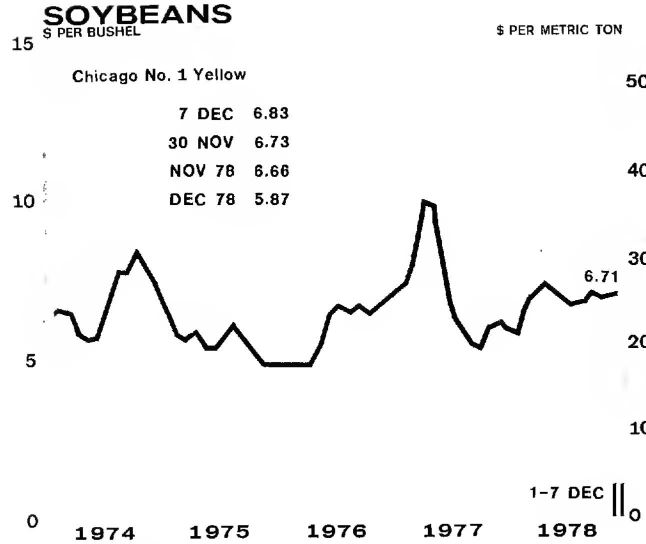
COTTON



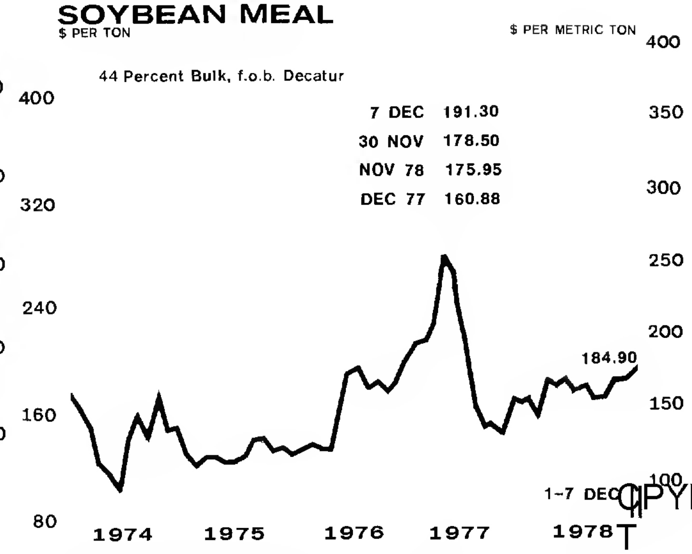
COFFEE/TEA



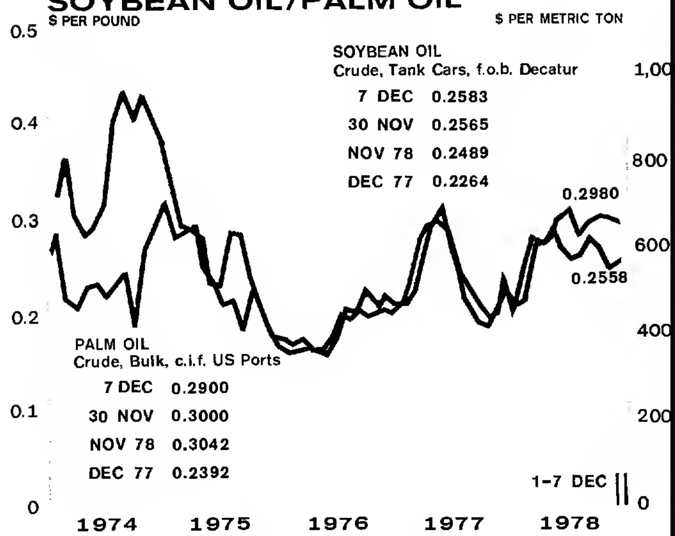
SOYBEANS



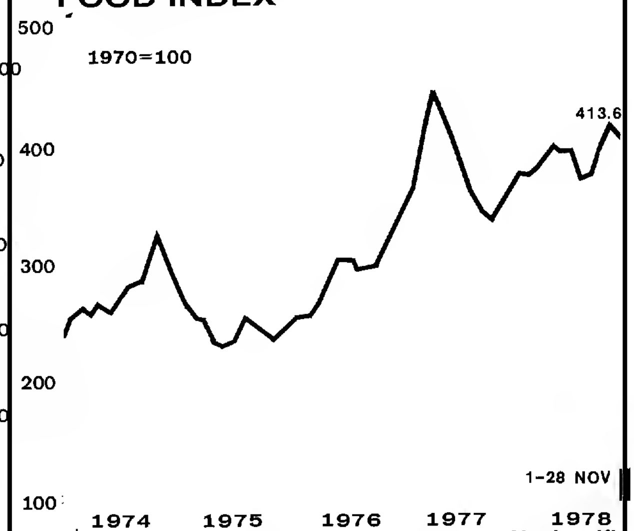
SOYBEAN MEAL



SOYBEAN OIL/PALM OIL



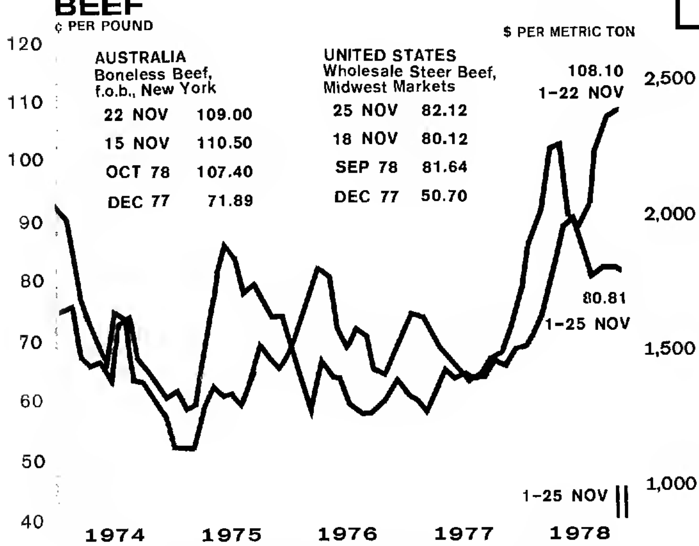
FOOD INDEX



Unclassified
578021 12-78

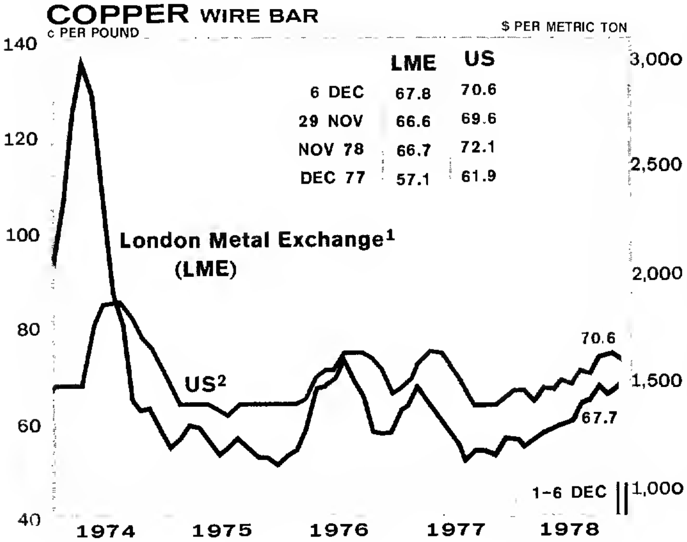
NOTE: The food index is compiled by the Economist for 16 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

BEEF



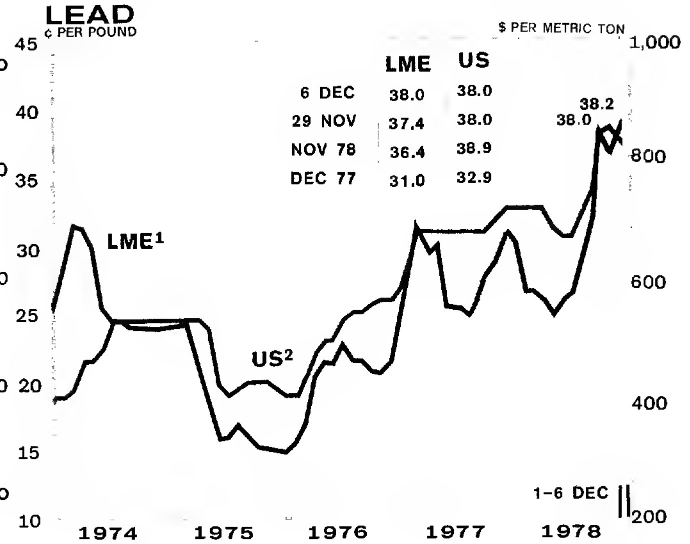
INDUSTRIAL MATERIALS PRICES MONTHLY AVERAGE CASH PRICE

COPPER WIRE BAR



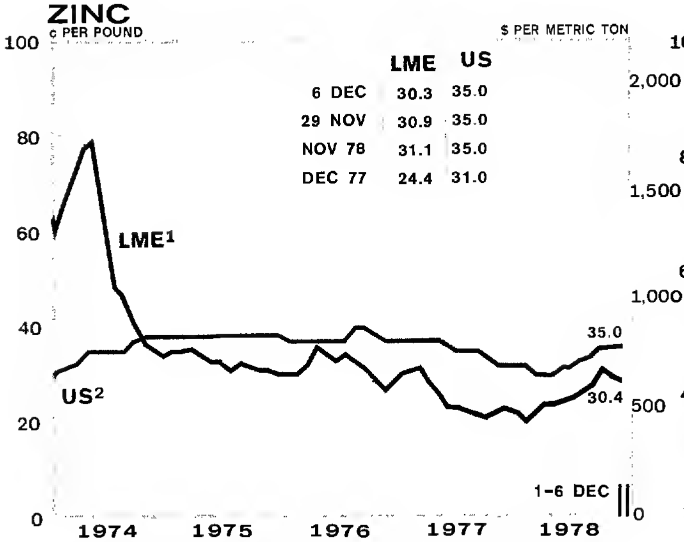
	LME	US
6 DEC	67.8	70.6
29 NOV	66.6	69.6
NOV 78	66.7	72.1
DEC 77	57.1	61.9

LEAD



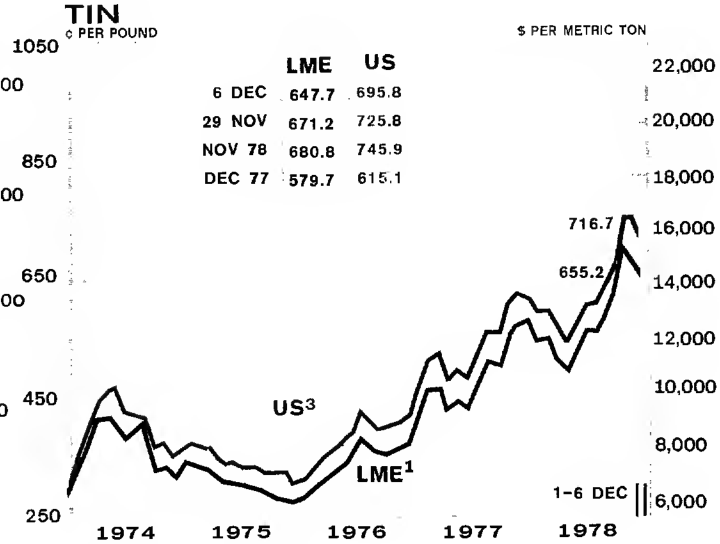
	LME	US
6 DEC	38.0	38.0
29 NOV	37.4	38.0
NOV 78	36.4	38.9
DEC 77	31.0	32.9

ZINC



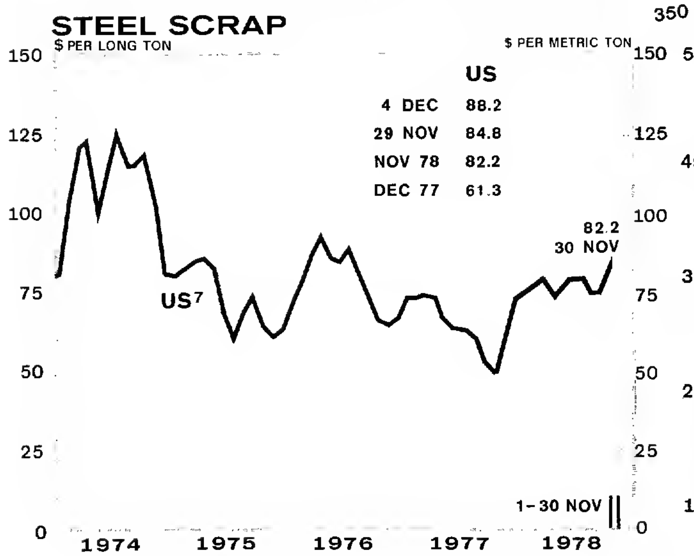
	LME	US
6 DEC	30.3	35.0
29 NOV	30.9	35.0
NOV 78	31.1	35.0
DEC 77	24.4	31.0

TIN



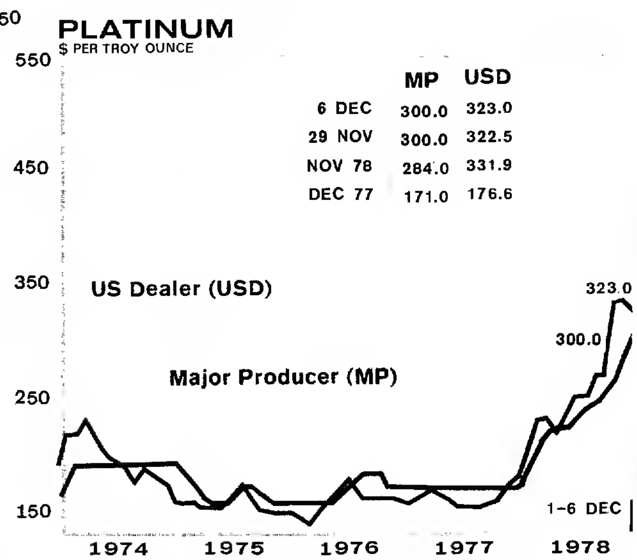
	LME	US
6 DEC	647.7	695.8
29 NOV	671.2	725.8
NOV 78	680.8	745.9
DEC 77	579.7	615.1

STEEL SCRAP



	US
4 DEC	88.2
29 NOV	84.8
NOV 78	82.2
DEC 77	61.3

PLATINUM

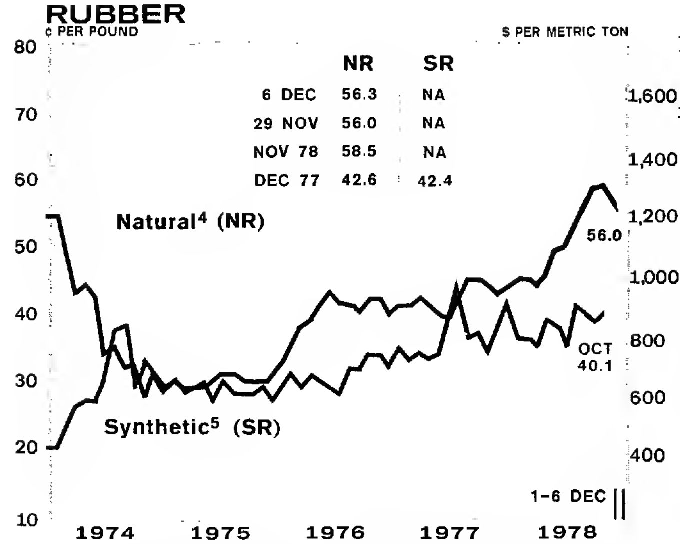


	MP	USD
6 DEC	300.0	323.0
29 NOV	300.0	322.5
NOV 78	284.0	331.9
DEC 77	171.0	176.6

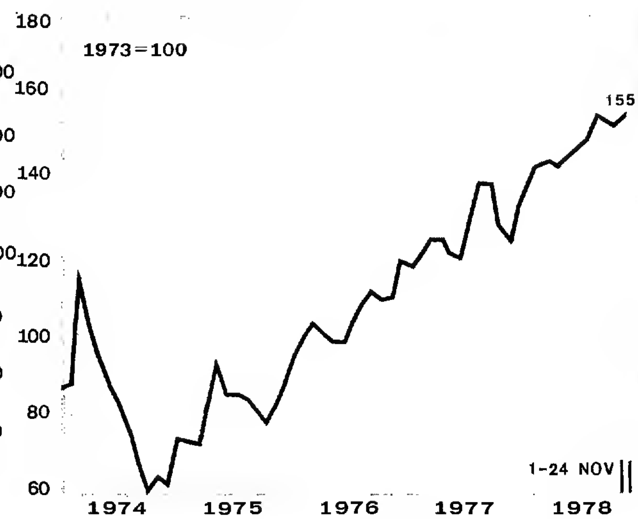
SELECTED MATERIALS

			CURRENT	MAY 78	NOV 77	NOV 76
ALUMINUM	Major US Producer	¢ per pound	55.25	53.00	53.00	48.00
US STEEL	Composite	$ per long ton	419.31	395.81	359.36	327.00
IRON ORE	Non-Bessemer Old Range	$ per long ton	22.55	21.43	21.43	20.51
CHROME ORE	Russian, Metallurgical Grade	$ per metric ton	NA	NA	150.00	150.00
CHROME ORE	S. Africa, Chemical Grade	$ per long ton	56.00	56.00	58.50	42.00
FERROCHROME	US Producer, 66-70 Percent	¢ per pound	43.00	42.00	41.00	43.00
NICKEL	Composite US Producer	$ per pound	2.02	2.06	2.07	2.41
MANGANESE ORE	48 Percent Mn	$ per long ton	67.20	67.20	72.24	72.00
TUNGSTEN ORE	Contained Metal	$ per metric ton	18,095.84	17,169.00	22,113.00	18,082.00
MERCURY	New York	$ per 76 pound flask	157.00	150.55	138.43	134.50
SILVER	LME Cash	¢ per troy ounce	596.19	514.64	482.70	436.90
GOLD	London Afternoon Fixing Price	$ per troy ounce	195.64	176.31	162.10	130.44

RUBBER



LUMBER INDEX[6]



INDUSTRIAL MATERIALS INDEX

[1]Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME.

[2]Producers' price, covers most primary metals sold in the US.

[3]As of 1 Dec 75, US tin price quoted is "Tin NY lb composite."

[4]Quoted on New York market.

[5]S-type styrene, US export price.

[6]This index is compiled by using the average of 13 types of lumber whose prices are regarded as bellwethers of US lumber construction costs.

[7]Composite price for Chicago, Philadelphia, and Pittsburgh.

NOTE: The industrial materials index is compiled by the Economist for 19 raw materials which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

Unclassified
578022 12-78